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State of North Carolina

Request for Information: Pay for Success

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Submitted To:
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1. Executive Summary

Thank you for the opportunity to share Accenture's perspective on Pay for Success (PFS), grounded in our experience working with our state and local government clients exploring the feasibility of pay for success transactions, as well as our extensive experience in workforce development, human services, and education.

Intuitively, we all know that preventing a problem is far less expensive than curing it later. Yet, as health care, education, and retirement eat more and more into state and local government budgets, there is a decreasing amount of discretionary dollars available to finance preventative services. Complicating this equation is the fact that we have far too little evidence to understand which preventative programs have the best impact. Fortunately, new tools such as Pay for Success contracts (sometimes referred to as Social Impact Bonds) have emerged as innovative finance mechanisms that have the potential to not only bring new infusions of capital to provide preventative solutions, but also to expand the body of evidence about programs that work.

Pay for Success is a transformational tool that state and local leaders can use to address some of the toughest social problems facing their citizenry. PFS is a new contracting structure in which the private sector provides up-front financing to support the delivery of preventative services that reduce the need for future, more costly, government services. The state or local government only repays the investment after the agreed upon outcomes are achieved. Defining and valuing these outcomes requires a new focus on results that demonstrates a renewed commitment to strong stewardship of taxpayer investments. And, by shifting risk to the private sector, we can bring new discipline and efficiency to address challenges in the social, education, environmental, health, and energy sectors.

Pay for Success transactions are built on the premise that specific outcomes can and will be achieved, and a foundational component for that premise is whether the data needed to support these transactions is available, accessible, and substantive. We believe that ultimately, the sustainability of PFS will be determined by our collective ability to harness and use data in new and transformative ways. Investors are increasingly asking for information about the evidence supporting interventions, service providers, and how performance will be managed. Furthermore, rigorous evaluation is a critical component of any PFS deal, and having access to high quality administrative data can both reduce the cost of the evaluation as well as offer new opportunities for transparency. **Embracing a new focus on data and analytics can help position the State to compete effectively for investment dollars and provide the maximum return on taxpayer investments**. Fostering an environment in which data can be shared across PFS stakeholders helps in three main areas:

- **Case Management**: Dynamic case management can help target the most appropriate suite of services to the needs of the target population at the time they are needed. This serves to have the target population receive the most appropriate services, resulting in the best outcomes.
- **Performance Optimization**: Having the ability to harness granular data can help identify recommended practices of the high performing service providers, pushing those practices to lower performers. Optimizing performance drives down the cost of delivery while delivering better results.
- **Evaluation**: Using administrative data and rapid-cycle evaluation techniques can help inform on-going operations while maintaining rigorous standards and costing less than traditional "black box" evaluation.

Pay for Success is an opportunity to demonstrate strong leadership that focuses on both financing programs that work and learning and building the evidence for what will enable wise investments in the future. It focuses on preventing problems, getting better results, and reducing governmental costs. While PFS contracts are a recent innovation, the principles associated with these mechanisms have been a part of Accenture's work with public service clients for years.

We have deep experience in PFS feasibility studies, data and analytics in the context of the public sector, and local and state government operations in general. We bring lessons learned and insights related to governance, data and analytics, and performance management to inform the State's PFS efforts.

2. Background

Accenture's Pay for Success Practice

Accenture's Pay for Success Practice is part of our larger Delivering Public Service for the Future practice focused on bringing transformation and innovation to the public sector. Our PFS practice is led by Gary Glickman, one of the country's foremost leaders in the industry. Prior to joining Accenture, Gary worked for the U.S. Department of Treasury where he oversaw the formulation of policy and financial structures for social impact bonds (Pay for Success), He is supported by a team with experience and expertise across public service strategy, operations, nonprofit management, financial services, human services, education, and data and analytics. His team is currently working with several state and local jurisdictions to design and launch PFS deals focused on foster care, juvenile justice, homelessness, and early education.

Accenture's Pay for Success practice offers state and local governments, funders, and nonprofit organizations support in three areas:

- Data and Analytics Services
- Technical Assistance
- Intermediary and Project Management Services

Accenture has built strong relationships with many of the market's leading Pay for Success intermediaries, including Third Sector Capital Partners, Social Finance, and the Harvard SIB Lab. We also have strong ties to many of the recent Social Innovation Fund grantees, including the Institute for Child Success, the Corporation for Supportive Housing and Nonprofit Finance Fund.

Accenture's offices in North Carolina are located in Charlotte and Raleigh, with over 1,500 professionals employed in the State. Accenture has helped numerous North Carolina-based businesses and public service organizations achieve high performance. Accenture's track record in North Carolina shows our start-to-end commitment to North Carolina state government specifically. Over the past 20 years, we have successfully collaborated on, implemented, and managed numerous complex, large-scale systems and programs across and with the State. Accenture successfully delivered all of these projects within budget, which is very important in these budget-challenged times.

Over the last year, North Carolina employees contributed more than 630 volunteer hours in the community, donated $385,000+ to our annual Employee Giving Campaign, and over 240 employees sat on local non-profit boards and/or participated in committee events. Some of our North Carolina Corporate Citizenship Initiatives have supported several non-profits, including Junior Achievement, United Way, Dress for Success, EarthShare, KIPP, Patriots Path, A Better World Charlotte, and Urban League.

Current Pay for Success Involvement in the Marketplace

Accenture's PFS practice is actively involved in supporting the Social Innovation Fund (SIF) grantees through our Data and Analytics Services offering. Accenture is supporting this initiative with up to a total of $1 million of discounted services to help state and local government jurisdictions advance their PFS initiatives. North Carolina would be eligible

to participate in this offer through their selection as a subgrantee to the Institute for Child Success. Accenture will provide supplemental support to the SIF grantee technical assistance teams with a focus on data and analytics. Several of the SIF grantees have reached out to Accenture expressing interest in using this offer for their selected jurisdictions. Our work is designed to help determine the optimal data requirements, infrastructure, and analytics to support a successful PFS transaction, performance optimization, and rapid cycle evaluation as methods of realizing potential improvements and ultimately build a pathway to the sustainable use of the data and systems to drive better results for government, service providers, and investors.

3. Answers to Information Solicited

Although the information solicited by the State in the Request for Information largely focuses on requests for service providers and Accenture is not a service provider, we strongly encourage the State to consider partnership with professional organizations in planning the appropriate structures, operations, and partnerships that will be necessary for a successful PFS interaction. There are several items to consider when contracting for a Pay for Success arrangement. Based on the information solicited, we have organized our perspectives into the sections listed below and have referenced questions from the RFI in the context of each section's content:

A. Pay for Success Opportunities for North Carolina (RFI Questions regarding Outcomes the State Should Pursue)

B. Recommended Deal Structure and Target Outcomes (RFI Questions regarding Outcomes, Measurement, Local Government Partnerships)

C. Data Driven Decision Making (RFI Questions regarding a New Program or Discontinuation of a Program)

3A. Pay for Success Opportunities for North Carolina

Promising Policy Areas and Interventions

PFS deals are concentrated in a few broad social areas but are becoming more diverse. There is a strong emphasis on children, at-risk youth (young people who are neither employed nor in the educational system), criminal justice, and homelessness. PFS deals under development tackle even more diverse issues, such as teen pregnancy, child welfare, chronic disease management, workforce development, early education, maternal and infant health, and child adoption.

The State has outlined six areas of interest for potential PFS transactions. Of these six, some of these areas are already involved in PFS transactions, like early education, health care, criminal justice, housing, and workforce development. However, North Carolina would be a leader in the PFS field by pursuing PFS transactions for veterans, due to the limited PFS activity in this area. As the State thinks about these areas, it is critical to keep in mind the following issues when putting together a transaction that would be of most interest to outside investors:

- **Present lack of Evidence-Based Programs (EBPs) to address societal problems**. Due to the predominant model of contracting for a service rather than an outcome, there is a lack of evidence supporting many programs. And while this lack of EBPs increases execution risk, and may require higher rates of return from investors, it provides an opportunity for government to use evaluation to test intervention models and move toward paying for results rather than services

- **There may not be EBPs that align to the State's areas of interest**. That said, if there are EBPs aligned to North Carolina's areas of interest, the programs may be in other parts of the country and would need to be implemented in North Carolina with service providers who have not yet used such an approach. This will increase the execution risk and may require a higher rate of return for investors, as well as a ramp up period to

allow service providers the time to learn, train, and test the intervention before being subject to the terms of the PFS deal.

- **Evidence-informed programs can be alternatives to EBPs but may increase execution risk.** Evidence-informed programs can be effective alternatives for several of the policy areas, but they will again increase execution risk and will likely require higher returns based on the lack of historical data to support the economic model of the PFS transaction.

- **Benefits generated through a PFS transaction may not accrue to the agency or agencies who are involved in the transaction**. In this situation, the agencies receiving the savings would either need to be a part of the transaction or the value of their savings would have to be removed from the pool of savings available for pay out. In that case, it's important to make sure that the amount of money available is more than the cost of the transaction and can meet the agreed upon investor returns.

- **Savings may not be available for pay out to investors.** Sometimes referred to as the "wrong pockets" problem, there may be policy areas that could generate considerable savings across multiple levels of government, but significant portions of it are unavailable because they currently cannot be used in a PFS transaction. In several cases, savings will be generated from federal programs, like Medicaid; however, federal dollars may not be available for payment to investors for PFS transactions. As a result, any monetary benefits must be generated from funds that the State can access and the value of those savings must be more than the cost of the transaction.

3B. Recommended Deal Structure and Target Outcomes

One of the primary concerns the State should consider when structuring a Pay for Success transaction is how to create a transaction that will generate investor interest. Given that PFS transactions are often seen as high risk investments, it's incumbent on the State to find ways to mitigate the risk and build in systems that will reduce the risk. The State should consider the following deal structure guideline with regards to reducing risk:

- **Adopt a portfolio approach**: Some investors are interested in specific program areas while others are interested in achieving more general social impact. The State may be able to attract higher levels of investment by allowing investors to invest across multiple projects, thus spreading investment risk across a portfolio. This approach has been embraced by Salt Lake County as they tackle maternal and child health, criminal justice, and homelessness.

Valuing Outcomes

One of the most challenging questions in PFS contracts is how to establish a monetary value for an outcome. PFS is based on the concept in which private investment supports the delivery of preventative services that save the government money, using those savings in the future to repay the investment. However, savings often accrue over long time periods and may accrue to multiple jurisdictions and program areas.

In addition to identifying how to capture savings from multiple agencies, a critical part of defining the value of outcomes is determining whether to count other, often less direct social savings or longer-term savings that result from the positive outcome. For example, reducing recidivism can generate direct cost savings for the prison system. However, if this outcome has been achieved by increasing community involvement and employment, there will likely be other positive effects such as decreased dependence on social benefit programs, reduced criminal justice costs and, potentially, increased revenue from income tax – all alongside broader societal benefits.

In most PFS deals, proximity, attribution, and quantification are the three key elements in valuation of outcomes. Given this, government may seek to identify "indicators" of positive outcomes that can be used as a proxy for these longer-term savings as part of its valuation.

PFS can only work when a program generates "monetizable" benefits that can be captured and set aside for payment at a later date. These savings, and how they are defined, are critical to understanding whether a PFS deal structure is warranted. There are generally three ways to think about savings in the context of PFS, and each type of savings presents a different challenge to being captured:

Type of Savings	Challenges to Capturing
Budgetary savings: A reduction from costs that would have been incurred in the absence of the program. These savings typically stem from reductions in anticipated spending from uncapped program accounts (often referred to as mandatory or entitlement programs).	Government must find ways to set aside funds for payment at a later date. Some states have set up sinking funds, while others utilize an annual appropriation that includes what the payment would be for that year and rely on their credit rating as a way to assure investors of payment at a later date.
Productivity savings*:* A reduction in the costs of capped programs in which there may be a waiting list or insufficient funds to serve the entire population. In this case, reducing the cost per outcome allows more people to be served using the same level of funding.	Any productivity savings generated from a PFS transaction immediately gets used to serve more of the population, making it challenging to use the savings to pay the investors. In this case, government needs to consider the value of this increased productivity as a form of savings.
Social or long-term benefits: Benefits created from a re-oriented system, typically appearing many years after the PFS program and not usually calculated into predicted dollar savings.	The challenge with long-term benefits is determining which savings to consider incorporating in the total value of the outcomes. Typically, these benefits are not considered in the valuation of outcomes for PFS deals.

Mitigating Risk and Attracting Investment

Once the deal structure has been identified and the desired outcomes have been determined, there are several potential risk factors to keep top of mind when pursuing a PFS contract. Mitigating these risks will help the State to attract more investment:

- **Appropriation risk,** as discussed above, is the risk that savings will not be able to be captured for payout. This risk can be addressed through budget, contracts, and appropriations language to ensure the availability of funds. Setting up cross-jurisdiction agreements for the investing agency/department to access savings and/or setting aside funds on an annual basis will assure investors that they will get a return if desired outcomes are achieved.
- **Execution risk** is the risk that the intervention will not be delivered effectively, compromising the potential savings by not achieving the desired outcomes. This risk can be reduced through identification and selection of evidence-based practices backed by effective use of data and analytics and implementing strong performance management. The combination of a proven intervention model and analytics used for case management, performance optimization, and evaluation will ensure higher investor interest.

Partnership with Local Government Entities

While there is potential for the State to partner with local government entities, benefit sharing protocols and data sharing agreements would need to be negotiated prior to PFS contracting. Given the timeline for securing data sharing agreements (up to 12 months), appropriate stakeholders need to be engaged as early as possible. These agreements, paired with the ability to aggregate data from city, county, and state systems, are critical for program evaluation. Managing multiple service providers across multiple levels of government requires a sustainable model for tracking data as well as strong analytics capabilities.

A critical element to keep in mind when thinking through partnerships across government entities is how savings will be captured and distributed to the investors. As noted above, if sufficient savings from an intervention can be identified, the savings must be able to be captured at the appropriate level of government. Benefits from PFS interventions can accrue at several levels of government – local, state, and federal. For example, a supportive housing intervention for a homeless population has several benefits, including reductions in emergency room visits, prison/jail sentences, drug treatments, and temporary shelter stays. These savings accumulate across program and departmental boundaries and at several levels of government. The savings need to be mapped to the appropriate government entity prior to considering a partnership with local government in a PFS transaction.

3C. Data Driven Decision Making

Regardless of whether the State chooses to pursue the scaling of new programs or uses the model to discontinue programs that do not prove valuable, there must be a focus and commitment to using data to drive those decisions. If you are going to scale a program, the State should leverage the full range of administrative data available to conduct rigorous evaluations in order to determine whether the program is achieving the outcomes the State seeks. Prior to any scaling of a program, its effects must be confirmed. The State should put in place, if it has not done so already, a set of data sharing agreements across all relevant agencies and service providers to capture and analyze program outcomes. The same goes for any programs that may be discontinued. Given the precarious state of many of the vulnerable populations using specific programs, it's incumbent upon the State to ensure that any program discontinuation is done with an eye towards finding better, more effective ways to help the target population. And just like the desire to scale a program, the State must use the available data to determine whether a program should be discontinued. Incorporating a rapid cycle evaluation process using administrative data is an excellent way for the State to make decisions on prioritizing funding for particular programs.

4. Summary

Pay for Success contracts are exciting finance mechanisms that have the potential to bring new infusions of capital to provide preventative solutions while expanding the body of evidence about programs that work. A foundational component for these outcomes-based agreements is whether the data needed to support these transactions is accessible and serviceable. We believe that the effectiveness of a PFS contract hinges on having access to data across all stakeholders participating in the PFS transaction, combined with an analytical framework used for performance management. As such, we would suggest that the existing Government Data Analytics Center (GDAC) supported out of the Office of Information Technology Services should play a key role in supporting any PFS initiatives in North Carolina.

The first step to ensuring a successful PFS contract for the State is selecting the right contractors through the Request for Proposal. Based on our experience with Pay for Success, we recommend the State consider including the following in any subsequent RFP:

- Require a comprehensive plan on how to access and use data across systems in order to maximize the use of administrative data to (i) make decisions about program effectiveness in achieving desired outcomes (ii) match interventions to individuals or families within the target population, (iii) optimize performance among and across providers, and (iv) provide administrative data sets to be used for evaluation.
- Consider employing a professional management organization to assist in managing the implementation as part of the service provider or intermediary team.

5. Relevant Accenture Publications

Accenture is passionate about the opportunity that exists for government and the investment community to work together on PFS deals. Our recent publication, titled *A Focus on Results*, looks at how government needs to reframe their thinking to move forward with PFS transaction with a focus on three priority areas: valuing outcomes and budgeting for results, procuring for results, and rigorously measuring performance and outcomes.

6. Additional Information

About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 323,000 people serving clients in more than 120 countries. Every day, our teams combine unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful organizations to collaborate with clients to help them become high-performance businesses and governments.

About Accenture's Health and Public Services Practice

The State of North Carolina will need to work with multiple stakeholders across government, as well as in the nonprofit and private sectors, to successfully execute PFS contracts. The spirit of Pay for Success aligns with the core of Accenture's Health & Public Service Operating Group mission – to help health and public service organizations achieve high performance, enabling them to deliver better social, economic and health outcomes for the individuals and families they serve. Our response is based on Accenture's specific experiences and capabilities that can support your PFS strategy. These include:

- Deep industry experience in the Public Service and Nonprofit sectors, including a global Human Services Industry practice that has successfully implemented more than 60 Human Services applications for governments in the last 15 years.
- Practical experience helping other jurisdictions plan for their Pay for Success assessments and initiatives, including Dakota County, Minnesota and Montgomery County, Maryland.
- The tools, capabilities, and relationships of a leading global management consulting firm in areas that will be required for a successful social innovation initiative, including program and performance management, business case development, and relationships across the public, nonprofit, and commercial sectors.
- Access to the broader industry dialogue on innovative funding for social services through our annual Human Services Summit, sponsored in collaboration with Harvard University. This event brings human services leaders, industry experts, and Harvard faculty together to discuss strategy and best practices for human services organizations.

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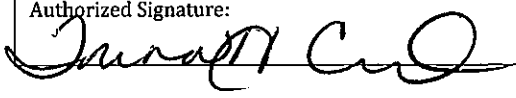
Authorized Signature: 	Date: **August 11, 2015**	

ADULT REENTRY PLAN – EXECUTIVE SUMMARY

More than half a million people are released from federal and state jails and prisons in this country each year. Following their release, roughly two-thirds of ex-offenders are arrested for a new offense within three years resulting in a seemingly unbreakable vicious cycle. (Cove & Bowes)

After more than three decades of working with large populations of ex-offenders, *America Works, a national private workforce development firm* asked whether employment reduces recidivism to crime. Approaching think tanks and scholars, they were surprised to find that little research had been done on the subject.

Is it a logical frame of thought to think that if you provided employment for those leaving prison this might reduce their going back?

Following years of speculation and anecdotal evidence, American Works decided it was time to study the actual impact employment has on recidivism. They joined forces with the Manhattan Institute to address this pressing issue. America Works, operated the program and an independent research organization conducted the study.

The Manhattan Institute recently released the study results, and yes, they support the original thesis. *Work reduces recidivism* but there's an important caveat that we must point out - the sooner ex-offenders are employed, the less likely they will commit future crimes resulting in further jail and prison time. (Cove & Bowes)

The study revealed that there was a 20 percent reduction in return to crime by non-violent offenders (who constitute the majority of incarcerated individuals).

To further supplement this study, American Works looked within their own prison-to-work programs in six cities across the United States. While they were not controlled studies, the results have been consistent and impressive. Statewide rates of recidivism range from about 31 to 70 percent, while the rates for those placed in jobs shortly after their release ranged from 3.3 to eight percent. One could claim that these were self-selected to be more employable and less likely to recidivate. But in High Point, NC, only violent offenders who were identified by the police as most likely to reoffend were referred to their office for jobs. The North Carolina statewide recidivism rate was 40.7 percent, while the recidivism rate for individuals referred and placed in jobs was five percent.

Their Maryland office had equally successful results. The state's recidivism rate hovers just over 40 percent. They found that there was zero recidivism for ex-offenders who reached six months of employment.

It costs about $5,000 to place and retain an ex-offender in a job. It costs, depending on the state, more than $31,000 on average to keep someone in prison for a year. New York State, for example, spends as much as $60,076 per inmate. The cost/benefit is immense and should not be lost on legislators interested in reducing budgets. (Cove & Bowes)

American Works states that to replicate these achievements, there are two crucial components to a program if it is to succeed. First, it must have work first, or rapid attachment to employment, rather than lengthy classroom training.

Second, those providing the services must be paid only for results. That is, an ex-offender must be placed in a job and retained for some minimum of time before a program provider receives any money.

These two prerequisites will ensure success. National and local policy makers should take heed.

It's time to break the cycle. The results are in - work reduces recidivism.

AES is proposing building a waste to energy facility within the state of North Carolina. The system will be a closed loop waste recycling facility which processes the waste and then recycles it into renewable fuels and products.

For every MW of energy proposed; about 42 jobs will be created. Therefore a 50MW facility will create about 2100 jobs. About 78% of these jobs will be for an unskilled labor force which we are proposing to be filled by disenfranchised workers such as those with a criminal history, and or low education.

I. Background

Alternative Energy Specialist (AES) is a minority owned company headquartered in Charlotte, NC. We are an innovative renewable energy company that has partnered with a variety of organizations to provide sustainable solutions to address many of the world's problems.

Our organization would like to provide a viable solution for the state of North Carolina's recidivism problem while at the same time reducing the number of people on social services programs and generating indirect employment through-out the community. We are proposing to be the first true acclamation of private cooperation working with a non-profit to actually make non-profits independent of government services.

We will play the role of an external organization and provider. As a provider we will work directly with the target population to provide employment along with other services in order to reduce recidivism. Our role will also consist of working directly with government departments, investors and the evaluator. Potential partners that we have identified so far consist of CBT as an investor, NC county waste management, preferably the largest county producer of trash; Mecklenburg County and Stanly County NC, NC Department of Employment Commission, NC Department of Justice and any state agency that is looking to eradicate or reduce recidivism and the number of people on social services (health care, housing, food stamps etc.).

Within our august body of individuals there is a concrete history of working with a number of governmental agencies to provide services to both public and private entities. We are well aware that there needs to be a strong understanding and commitment of interagency cooperation to make a task such as this come to fruition.

We have the necessary skills to properly evaluate all information and put it in the proper format so that statistical information can be properly cataloged, a proper system of care can be formatted and organized and each service can be accurately evaluated and scrutinized. We see no potential conflicts as we see our organization working in congruence with public and private entities, however the process will be transparent so that if there are any conflicts they can be resolved through team work and our due diligence. We also have the necessary skills to negotiate with various entities for the purposes of developing the proper partnerships so that all parties benefit from the goal of recidivism and that this goal becomes a reality, one that can be measured statistically through our level of cooperation and our willingness to eradicate the dysfunctions that exist within the community.

II. What outcomes should the state pursue?

The state should pursue baseline comparison outcomes. Evidence that comparison models for a baseline comparison exist in statistics gathered from the unified crime report, information from the department of corrections, data collected from the NC employment commission and data from NC department of social services (healthcare, housing, food stamps etc.)

An initial investment will be required by investors of about $100,000,000. A rough order of magnitude of payments that would be expected from the state would be the promise of the return of the capitol cost of the program since the state of North Carolina will be direct beneficiaries of revenue streams created by job creation which in turn will create streams of income for county and local governments.

Opportunities will exist to partner with governments to achieve savings and benefits at multiple levels. The government municipalities will have the opportunity to take advantage of local incentives made available through local and county governments through the creation of a tax revenue basis on the sale of the by-products that we create. This will tax revenue base will benefit local, county and state government.

III. How should the state measure and pay for success?

Our organization should be eligible for each category as we seek not only to meet but exceed the standards that are required for the pay for success model. Our organization should be judged by the number of sustainable jobs created; consistent and sustainable employment, how many people are paid above minimum wage, as well as indirect employment in the community and indirect jobs created for others in the community (those with no criminal record) and how much we reduce the number of people on social service programs.

The time period that the state should set for intervention and evaluation for our program should be a year from the start date. The state should then set interim goals of 90 day increments after the first year of the program being in operation. We understand that there will be an expected actuarially-based cost per individual without an intervention with a cost per individual to achieve the desired outcome. To develop these statistical rates, dividends and probabilities we will first need to have the program in operation for at least a year, this is needed in order to produce an accurate statistical variance.

IV. How would the program expand through scale or replication?

Due to the fact that the initial program is designed to be self-sustaining it will allow for continuous growth, development and expansion into other areas as the need for more sustainable by products will continue to grow. We will continue to provide direct guidance and over sight to the program while continually seeking out other opportunities to grow and expand the brand. Beyond the initial required capitol cost that the state will reimburse the organization no other funds will be required. The system is designed to sustain itself with no outside assistance.

The job opportunities that we will create will not only allow individuals with a criminal record to not only sustain their selves but their families as well. The impact we will have on the community will build self-esteem and self-respect, wages above minimum wage and upward job mobility. Our impact will create revenue streams for local and state government which will have a positive impact on the community at large. This proposed project will decrease the need of individuals to seek out public assistance while providing for their selves and their families.

References:

Cove & Bowes. Retrieved From: Immediate Access to Employment Reduces Recidivism http://www.realclearpolitics.com/articles/2015/06/11/immediate_access_to_employment_reduces_recidivism_126939.html

B-CREATIVE ENTERTAINMENT LLC
REQUEST FOR INFORMATION
For The State Of North Carolina "Pay for Success Program"

INTRODUCTION

B-Creative Entertainment LLC a corporate affiliate / micro-franchise of 5LINX Enterprise Inc. is pleased to submit this Request for Information (RFI) to support the State of North Carolina "Pay for Success," campaign. We strongly believe in the pursuit of achieving great success as it pertains to individuals venturing into the world of entrepreneurship. One of the biggest hurdles for most startups is the access to funding capital and resources. We have positioned ourselves to be a strong partner to organizations and persons of influence that are interested in developing social entrepreneurial platforms to help communities connect resources to relationships. Through this program and our plethora of resources we consider we can showcase the potential opportunity and capital creation that exists by leveraging the infrastructure, assets, and capabilities within our portfolio.

EXECUTIVE SUMMARY

Micro-franchising is a development tool that seeks to apply the proven marketing and operational concepts of traditional franchising to small businesses in the developing world. The primary feature of a Micro-franchise is its ability to be streamlined and replicated. The businesses are designed for micro-entrepreneurs and usually target development issues such as consumables, health and wellness, sanitation and energy. This business model coupled with funding, support and training is the perfect model to position individuals in a posture of success.

The Objective

Our objective is to help lift millions out of poverty, assist the displaced/downsized worker, reward our veterans who served so bravely for our country and educate our youth going into or coming out of college with fresh new ideas. Micro-franchising is a business model that applies traditional franchising to a very small business. Through its systemized approach it is much easier to:

- Navigate around the cost of franchise ownership which has risen steeply in recent years
- Improve the social economic status and wellbeing of individuals limiting the dependency on government assistance programs.
- Replicate micro-enterprises

The Opportunity

The opportunity we are presenting is to engage participants with the model of a Micro-franchise with 5LINX Enterprise Inc., whereas they are allowed to open up a micro-franchise business whereas they become a fulfillment partner for Fortune 50 to Fortune 500 companies that are looking for customer acquisition. The value is in the lower cost of the acquisition channels. The reason why the market is

thriving is because social media along with word of mouth and the trend for many corporations to invest in technologies and systems allows them to downsize which is also a major driving force in the market. The beauty of this partnership with 5LINX is with the company diversifying through its global expansion in the Philippines, Haiti, Mexico, Singapore, along with additional countries in South America, and Malaysia by 2017 micro-franchising for entrepreneurs perfectly aligns them to now become international business owners.

The Solution

- A program that enables individuals to jump start their business in a position of strength (adequate funding, support, mentors and training).
- A one (1) year pilot run with ten (10) participants from various cultures and backgrounds (college students, grads, military veterans, entrepreneurs, men & women etc.)

OUR BACKGROUND

1.) B-Creative Entertainment LLC's role in this program would be identified in the areas of mentoring, training, and coaching to ensure success of every participant.

2.) Below we have listed our partners/advisory council that would fill the roles identified in the above statement to help ensure program success.

Double Platinum SVP's – Stan and Chereace Richards (Bowie, Maryland)

* Advisory Board Members, 9.5 years with 5LINX
* 73 Senior Vice Presidents (SVP's) developed in downline (organization of 100,000 plus)
* Published Authors, Co-Founders of (The Richards Group Foundation)
* Steve Harvey Neighborhood Community Leader of the Year Recipient (2013, 2014), Nominee 2015

Senior Vice Presidents SVP's – Cornell and Solina Richards (Durham, North Carolina)

* Direct Senior Vice President (SVP), 8 years with 5LINX
* 18 years Retired Durham Police Officer, Banking / Political Science
* Partner Footprint – 21 States

Senior Vice President SVP – Paul K. Rozier (Detroit, Michigan)

* 1st Generation Senior Vice President (SVP) 7 years with 5LINX
* 25 years Corporate / International Business, Engineering / Management Consulting, Product Design
* Partner Footprint – 31 States

National Expansion Leader – Charles and Shoni Freeman (Durham, North Carolina)

* National Directors for 3 years with 5LINX
* 12 Years Information Technology, Human Relations, Information Technology

3.) We have extensive experience in working with government entities on various levels. We have been involved with the "Wounded Warriors" project for the last 8 years. We have a large canvas of active as well as retired military personnel that are involved with our organization at very high levels. We

have in the top 1%, agents and channel partners with military backgrounds. **(References upon Request)**

4.) For fifteen years (15) – we are a pay for performance organization. The evaluation that we have is the fact that we have grown from a startup to over $150 million dollars per year in revenue in supporting customer acquisition initiatives for our clients. We have a system that is trainable, repeatable, and we understand the metrics involved with our system, so it is predictable.

5.) No, there are not any conflicts of interest as it pertains to our organization.

WHAT OUTCOMES SHOULD THE STATE PURSUE?

1.) As our baseline comparison, we have year by year performance that is documented and published through the "Direct Selling Association", as well as the INC. 500/5000 business list. Additional evidence can be obtained through looking at the record evidence of the "Rochester Top 100 Companies", where our company was one of the most top performing companies in Rochester, New York for several years.

2.) The initial investment that would be required by investors comparable to a micro-loan of $5,000 dollars. (Usage of Funds)

   a.) Funds would cover the Micro-Franchise, initial product and samples investment, it would also cover the infrastructure cost for approximately six (6) months.

3.) The payments expected from the state would be coupled with the investor's initial micro-loan made out to the participants of the program. A rough estimate would be $1500.00 dollars outside of the micro-loan for the participants first year. (Please see a detailed explanation in the next section question 4) Our systems are set up to receive credit card payments and not prepaid cards.

4.) The opportunities that exist are enormous. In our commercial division we have a number of products and services that can help reduce fixed costs, such as merchant services / payment solutions, health and wellness, and tele-medicine. There is also coffee available for commercial sales as well.

HOW SHOULD THE STATE MEASURE US?

1.) How should the State measure and pay for success (cashable savings, wellbeing benefit, and willingness to pay)? There are cash saving / and abundant of savings on some of the products that are related to the staff. The wellbeing component is twofold as well. If you have staff that are losing weight and getting healthy that increases production on the job and minimizes time away from work due to illness. They also are having access to more services that they can utilize on a regular basis without any additional cost.

2.) There are a number of traditional metrics the State could use as it pertains to weight lost and healthy living standards based on the person weight and the cost of their personal medical profile.

3.) The timeline the State needs to provide in order for an intervention and evaluation is one (1) full year. We do believe that a six (6) months assessment would definitely be appropriate to see if the participant is progressing at an acceptable rate. However a participant in this program would be better served with the one (1) full year of participation in order to do a full evaluation. All such evaluations would be conducted at the end of each year the program is in existence.

4.) The cost that the State could expect is the participant's first training event. This would be covered in full. (Ticket, Airline Fare, Car and Hotel Rentals.) Every international event that follows after the first will be the full responsibility of the participants. How would a program like this fair without an intervention from the State? Without the State's assistance, the participant would bear the responsibility to invest the upfront micro-franchising money, secure startup capital and management, create and execute a viable marketing and social media strategy, while simultaneously using their own funds to purchase and provide samples to conduct efficient customer acquisition on a regular basis. The benefits of this program however, eliminates these often consuming barriers and positions the participant/entrepreneur in a posture of strength and success.

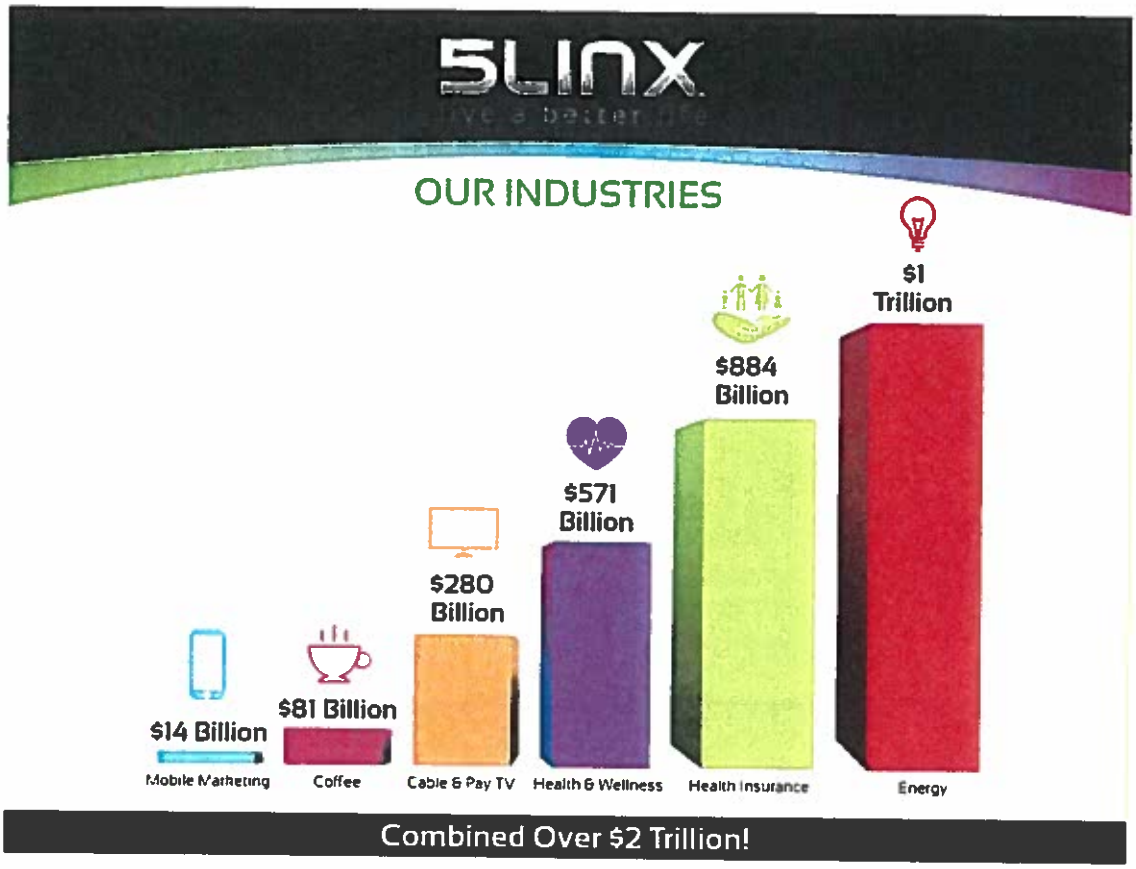
IF A NEW PROGRAM, HOW WOULD IT EXPAND THROUGH SCALE AND REPLICATION?

1.) This is a train the trainer program. Once an agent/representative learns the system, they have the ability to increase their leverage access by teaching other people the same system. And in return of them equipping and teaching the system to others they become; for better terms a "Broker" in the same sense as a real estate broker or insurance agent which possess the ability to expand their agency by adding more agents.
2.) Our continuing role would be that we build agency relationships for a lifetime. As long as that agent/representative is participating in the business, then they have access to our business leaders and resources. It is in our best interest and part of our commitment to help continue to grow that individual's business and organization.
3.) The ongoing cost of the program can be summed up this way: base infrastructure cost per month will range at about $105.00 - $225.00 depending on the level of samples that the agent chooses to invest in. Minimum would be $105.00 per month.

RETURN ON INVESTMENT (ROI)

The ROI an investor can expect from participating in the "Pay for Success" program is based on an average 30% annual margin of the original investment for the contract term (1 year). This is a "No Excuse System" a train the trainer style program. That being said, with the proper application of the "Turn Key System" there is no reason any participant of the program should default on the repayment agreement. The graph below highlights the domestic markets we participate in that handle well over 2 trillion in volume. Please see the illustration below:

We target essential Products and Services that are categorized as "Necessities". We look for product lines that effect or control the way we live, work, learn, and play. Often, we benefit from public policy mandates that drive market trends



The initial investment of $5,000.00 dollars a participants receives he/she has the life term of the program (i.e. contract) which is one (1) full year for payment to be completed. The estimated amount of the full return is $6,500.00 dollars. **(The initial investment - $5,000 + the 30% margin - $1,500 = $6,500.00)** For the first 120 days all payments are deferred to allow for a ramp up period and a sustained income margin of $1,500 to $2,000.00 dollars monthly based on customer acquisition bonuses of product and services and organization production. On the 121st day the re-payment of the micro-loan begins. Here is what that repayment process would look like to the investor and the participant in the program:

- Upfront monthly bonuses based on a per unit moved metrics range from $200 - $370.00 each
- Commission value on product sales range between 10 – 30%
- Residual Income which is based on customer acquisitions

ALL PARTICIPANTS would be trained to be a subject matter expert (SME) on the following products in the first 120 days to generate their first of many income streams:

- Home Security System – bonus rate /unit range: **$250 or 370.00 x 12** units per month (equivalent to 3 units per week) = either **$3,000.00 to $4,400.00 a month.**
- Payment Solutions (i.e. Merchant Services) – bonus rate /unit **$200.00 x 12** units per month (equivalent to 3 units per week) = **$2,400.00 per month.** This does not include residual dollars also earned monthly on every transaction at a rate **of $10.00 per every $1,000.00** dollars processed.

DEFAULT OF CONTRACT

Any participant that fails to complete the one (1) year program agreement, **SURRENDERS ALL RIGHTS** to their micro-franchise to the investors and is subject to a **TERMINATION FEE of $1,500.00 dollars!** This termination fee will be required due to the extensive resources acquired to pilot this program. The investors will acquire all of the micro-franchise assets and at their disposal have the jurisdiction to assume the operation of the micro-franchise for their own benefit or the right to sell said micro-franchise for maximum profit. As a solace for the investor, the Small Business Association (SBA) reports that on average there are 500,000 non-employer businesses started each month, with over 52% of those businesses classified as home based.

QUALIFICATIONS INTERVIEW PROCESS

B-Creative Entertainment LLC is committed to the overall success of every participant of the program. That being said it is our due process that we conduct a thorough interview with all participants to ensure we have the right candidates for this program. Each candidate will meet and speak with the advisory board members listed above and complete an assessment profile to determine eligibility. The purpose for this investigation is to protect the integrity and investments of the program and all participating parties.

CONCLUSION

In conclusion we look forward to working with The State of North Carolina "Pay for Success," program and supporting your efforts to improve the wellbeing of thousands of veterans, college students/grads, men, women, and future entrepreneurs. We are extremely confident that we can meet the challenges ahead, and stand ready to partner with you in delivering a program that would transcend our state into a shining example of how to effectively/strategically impact our communities fostering an economic surplus through the creation of multiple high producing micro-franchises.

If you have questions on this proposal, feel free to contact Christopher Neill Bailey, Sr. by email at BCreativeent@gmail.com, or by phone, at 919.309.6160. We look forward to working with you and continuing our conversation on this proposal.

Thank you for your consideration,

Pay for Success – North Carolina

Executive Summary

Bradley-Reid Corporation (BRC) founded in 2003 is located in Mecklenburg County, North Carolina which has both urban and rural characteristics and is geographically, racially, and ethnically diverse. BRC's overarching approach to community health promotion programming is to develop collaborations between community, faith, business, private and government partners that are able to effectively leverage resources focusing on improving the quality of life for underserved and unrepresented communities. BRC and collaborative partners use the program collaboration and service integration model (PCSI) to increase the availability of medical screening, mental health, and substance use/abuse services. Through the various partnerships clients are able to access services at multiple points of entry.

For the past 12 years, BRC have facilitated community-wide conversations while implementing systems that build community resources, organizational capacities, and structural foundations. The organizations' health promotion program activities target vulnerable populations: youth, elderly, minority, and reentry, providing health and mental health screenings, health education and risk reduction counseling (HE/RRC). The organizations recognize the intersectionality of social economic disparities and numerous other health conditions. BRC specifically provides Case Management; self-care skills training; caregiver skills and peer educator training. BRC uses multiple high-impact prevention strategies: biomedical, structural, behavioral, and public health promotion, to provide culturally appropriate client-centered services.

Primary services are delivered directly through Case Management and community linkages to the following service areas: bio-medical (drug treatment and medical adherence services); structural (housing placement, emergency financial assistance, workforce development, and job placement) behavioral (medication adherence and nutritional support; psychosocial and mental health counseling; substance use or abuse counseling); or public health (medical counseling, testing/screening, and linkages to healthcare). Case Managers, staff, volunteers, and strategic partners work to reduce risk factors and encourage the continuation of protective factors that impact prevention and reduce the spread of communicable diseases. The organization and collaborative partner network (Network) motivate individual self-efficacy, modify risk behaviors, and build community capacity to sustain a bio-psychosocial infrastructure responsive to the holistic health of clients. The organization leverages relationships and funding to create community ownership and build replicable/scalable programs that recognize the intersectionality of health and the dimensions of wellness.

BRC programs serve culturally and linguistically diverse communities and multiple cultures. Although race and ethnicity are often thought to be dominant elements of culture, the organizations embrace a broader definition to incorporate diversity within specific cultural groups including, language, gender, socio-economic status, sexual

orientation and gender identity, physical and mental capacity, age, religion, housing status, and regional differences.

The organizations reference The National Standards for Culturally and Linguistically Appropriate Services (CLAS) in Health and Health Care to advance health equity, improve quality, and help eliminate health care disparities by providing a blueprint for individuals and health and health care organizations to implement culturally and linguistically appropriate services.

BRC, and collaborative partners work together to address social, economic, and environmental determinants of health, engage communities, align leadership, develop business workforce, and sustain systemic services to support a bio-psychosocial continuum of community structural well-being. All services provided by BRC, and collaborative partners are widely accessible. Services do not discriminate on the basis of age, disability, sex, race, color, national origin or religion.

Background

Each year, more than 700,000 people are released from state and Federal prison, while another 9 million cycle through local jails. Statistics indicate that more than two-thirds of state prisoners are rearrested within three years of their release and half are re-incarcerated. High rates of recidivism mean more crime, more victims, and more pressure on an already overburdened criminal justice system. The Administration's *National Drug Control Strategy* supports comprehensive change within the criminal justice system, promoting a combined public health/public safety approach to stop the all-too-common cycle of arrest, incarceration, release, and re-arrest.

Reentry Population in Under-resourced Communities - Individuals returning from incarceration report difficulty accessing medical and mental health services. Challenges are well documented for members of reentry communities, especially subpopulations of youth, LGBT, homeless, veteran, and people living below the FPL. Furthermore, ethnic minorities experience additional challenges, including macro and micro aggressions, cultural insensitivity, or language barriers. These challenges -social and economic- may hinder people from accessing services that they need to deal with underlying health and mental health issues, thereby perpetuating and or causing instability. Prison returns are heavily concentrated in an arc that extends clockwise from south to east Charlotte. While these neighborhoods represent slightly more than one-third of the county's population, they receive nearly 70% of all returning offenders. The same report identifies the communities the ex-offenders return to are poorly equipped to provide the support and resources necessary to moderate an offender's criminogenic risk factors, those characteristics which make criminal activity more likely. According to the Quality of Life Study, which assesses the social, economic, crime, and physical characteristics of neighborhoods, 27% of neighborhoods within the arc were considered "challenged that is, they offered below average quality of life when compared to the rest of Mecklenburg County. County-wide, only 16% of neighborhoods are considered

challenged. The layers of factors create barriers for returning citizen, who desire to reintegrate back into the community.
(Recidivism Rates -NC DOC Prisoners Released To Mecklenburg County 2009 -2011) http://charmeck.org/mecklenburg/county/CriminalJusticeServices/Documents/Justice%20Reinvestment/Prison%20Recidivism.pdf

Reentry programs are designed to assist incarcerated individuals with a successful transition to their community after they are released. Improving reentry is a critical component of President Obama's Strategy to reduce drug use and its consequences. Specifically, the Strategy calls for supporting post-incarceration reentry efforts by assisting in job placement, facilitating access to drug-free housing, and providing other supportive services. The primary purpose of reentry services is to make communities safer, assisting those returning from prison and jail in becoming productive, tax-paying citizens and saving taxpayer dollars by lowering the direct and collateral costs of incarceration. The federal government recognizes the importance of offender reentry as a critical tool in breaking the cycle of drug use and crime, and improving the public health and public safety of our communities. These ongoing efforts are necessary at all levels of government and community.

- What role would your organization have in a pay for success contract?

Currently, reentry services are not provided in a comprehensive manner. Services are typically provided by multiple agencies and not connected. BRC will serve as the management team and will also operate as the implementation team for Project Reclaim, a holistic program that encourages and supports reentry populations to establish themselves as productive community members. BRC proposes that through a holistic approach members of the reentry community can reclaim their lives.

- What potential partners have you identified to fill other roles?

Program Collaboration Integration Services (PCSI) is a mechanism for organizing and blending interrelated health issues, activities, and prevention strategies to facilitate a comprehensive delivery of services. There are five principles that form the decision making framework for PCSI: appropriateness, effectiveness, flexibility, accountability, and acceptability. By following these five principles for PCSI, programs can deliver more comprehensive integrated services to identify and treat disease more effectively to improve the health outcomes of the persons they serve. PCSI combines two approaches for improving public health outcomes: program collaboration and service integration.

Program Collaboration involves a mutually beneficial and well-defined relationship between two or more programs, organizations, or organizational units to achieve common goals. It involves many aspects of comprehensive program management at state and local levels; the 10 essential public health functions, developed by the Core Public Health Functions Steering Committee in 1994, provide a useful framework for categorizing collaboration strategies among programs (Table 1).

Service Integration provides persons with seamless comprehensive services from multiple programs without repeated registration procedures, waiting periods, or other administrative barriers. A key benefit of service integration is that it encourages service providers to offer various interrelated services to ex-offenders whenever they access services. BRC has worked in collaboration with numerous agencies in the catchment area. The following chart is an abridged list of current collaborators.

Collaborating Partners

Service Area- All Service Providers have a minimum of two years' experience.	**Name of Organization/Agency**	**Population Served/Specialty**
Licensed SU/MH		
	Alternative Living Solutions	Mental Health Counseling
Licensed Medical Facility		
	CMC Myers Park Infectious Disease Clinic	Hepatitis C Treatment
CLIA Waived –Non Clinical Testing Sites		
	HomeCare	HAV, HBV, HCV
	Different Roads -	HIV
	Bradley-Reid Corporation	HIV
	Mecklenburg County Health Department –	HIV, HAV, HBV, HCV
Workforce Development/Vocational Training and Education		
	My Father's Choice Ministry	HCV
	Goodwill Industries Workforce Industries	Job Readiness, training, placement, GED
	The Center for Community Transitions	Job Readiness, GED career development, job retention
	Workforce Employment Services	Work Readiness, job prepare
	Ann White	STD/HIV Health Education

	Bradley-Reid Corporation	STD/HIV Health Education
Service Area- All Service Providers have a minimum of two years' experience.	**Name of Organization/Agency**	**Population Served/Specialty**
Reentry Service Providers (Jail, Prison, or Detention)		
	Crossroad Reentry Ministries	Reentry, Job Readiness
	My Father's Choice Ministries	Job Readiness, education, Temp-Perm Jobs,
	Alternative Living Solutions	Mental and Substance abuse counseling
	Langsford Chapel CME	Reentry Program, education, job training, substance abuse counseling
	Metropolitan Community Church (LGBT)	Counseling LGBT, addiction, sexual behavior, eating addiction and etc.
	Giant Steps Foundation	Mentoring, life skills
	Bradley-Reid Corporation	Peer support and psycho-social
Mentoring Program		
	Giant Steps Foundation	Mentoring, life skills
	Exodus Foundation	Mentoring, life skills
Food Pantries/Service		
	Bradley-Reid Corporation	Food vouchers
	Loaves and Fishes	Food vouchers
	Langsford Chapel CME	Food vouchers
Family Reunification	Bradley-Reid Corporation	

- What experience does your organization have working with government entities?

For the past seven years, BRC has been funded by state of North Carolina and federal agencies Substance Abuse and Mental Health Services Administration to conduct HIV prevention and care services, including HIV Case Management. The agency has consistently met deliverables, service scopes, and passed fiscal audits.

- What experience does your organization have in implementing or evaluating initiatives?

BRC staff have successfully collected and managed program data. Evaluation services are contracted out to Forbes Consulting, a Boston based consulting firm. Forbes Consulting has over 12 years of experience, monitoring and evaluating local, state, and federally funded programs/projects: Office of Women's Health, Center for Disease Control and Prevention, and the Bureau of Justice.

- Other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

Currently, BRC does not have any local, state or federal conflicts of interest.

- What outcomes should the state pursue?

Outcomes of Project Reclaim are

1. Reduced rates of recidivism
2. Increased number of ex-offenders successfully housed
3. Number of ex-offenders who complete job readiness
4. Number of interviews scheduled and completed
5. Number of ex-offenders securing employment
6. Length of continual-uninterrupted employment
7. For previously arrested and released, increase of time between release and re-incarceration
8. Improved reports of self-esteem and self-imaging

- What evidence exists for a baseline comparison?

Policymakers on the national, state, and local levels need to understand the complicated nature of the reentry process. The reentry process begins in correctional facilities as inmates prepare for release and continues with their release back to society. In addition to reentry public policies, other factors that influence successful transition of offenders from prison to community are individual characteristics, family and peer relationships, and community circumstances. Establishing a law-abiding lifestyle after prison involves locating living quarters, obtaining official identification, reconnecting with family, and finding legitimate employment.

Project Reclaim will use the Level of Service/Case Management Inventory (LS/CMI), a validated assessment tool that measures the risk and need factors of late adolescent

and adult offenders, to aid Project Reclaim staff in the treatment planning and management of offenders in justice, forensic, correctional, prevention and related agencies. Based on the LS/CMI scales an appropriate risk, need, and responsivity (RNR) assessment is made to support the allocation of service resources. Services are matched to the level of risk, criminological need, and offender characteristics, to address the needs and reduce criminological risks through case management.

The individual characteristics that influence recidivism include demographic characteristics, prison experience, employment history, education level, criminal record, and substance abuse dependence. For example, one long-term longitudinal study of offenders found that attachment to work is associated with reduced recidivism Unemployed former prisoners and those without high school diplomas are more likely to drop out of reentry programs than those who are employed and have high school diplomas. Also, recidivists tend to have begun their criminal careers at an earlier age and had more serious criminal histories than those who do not recidivate.

- What payments would be expected from the state?

The state would be expected to invest $15,000 -$21,000 annually for each ex-offender released from incarceration and enrolled in Project Reclaim

- What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

Opportunities to partner with local government to support the psycho-social needs of ex-offenders include housing, job readiness, counseling, food bank, and case management. An important part of the project is identifying supportive communities where ex-offenders can settle and receive positive reinforcement. Many prisoners return to neighborhoods characterized by high degrees of social disorganization and crime. Socially disorganized, economically depressed neighborhoods tend to be associated with higher crime rates. Socially disorganized communities regularly lack socialization processes needed to encourage positive behaviors and dissuade negative behaviors.

Anticipated Savings

- How should the state measure and pay for success (cashable savings, wellbeing benefits, and willingness to pay)?

According to the North Carolina Department of Public Safety, the average annual cost to maintain a prisoner in minimum or medium custody was $29,160, as of June 30, 2015 (https://www.nccrimecontrol.org). If the project is successful the state is expected to realize an annual savings of $8,160 per enrolled ex-offender. In addition to the cost savings the wellbeing benefits include reduced recidivism, increased life skills, improved self-esteem, and increased employment and housing stability.

- What metrics should the state use?

- Number of individuals enrolled in and successfully completing Project Reclaim
- Days of clean time or no reports of new arrests or violations.
- Number of days complying with provisions of release
- Number of ex-offenders gainfully employed
- Number of individuals enrolled in educational or GED programs
- Number of individuals transitioning to independent living

- What time period should the state set for intervention and evaluation?

The Project Reclaim is an 18 month intervention. Evaluation should be ongoing to assess the ex-offender's progress.

- At what interim dates should the state evaluate outcomes?

Quarterly Process and Outcome evaluations should be conducted to ensure the project is reaching the identified goals and objectives.

- What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

The average cost to provide housing, food, personal hygiene products, work readiness training, individual and group counseling is estimated to be $15,000. Some individuals will be employed by Project Reclaim and the average cost per ex-offender is projected to be $21,000.

- How would it expand through scale or replication?

Initially the project will operate houses for eight ex-offenders. The project can be replicated and scaled to work in larger facilities.

- What continuing role would your organization have in continuing the program?

BRC would continue operating houses, or provide other agencies technical assistance to open and operate additional houses, throughout North Carolina counties. Specifically BRC would provide Quality Management Systems **(**QMS), a framework for defining and delivering positive outcomes, managing risks, and continual improvement, ensure common approach and identify standards.

- What role would the state have in continuing the program?

The state department of correction would continue to support project replication throughout the state. The RNR assessment is conducted while the individual is still incarcerated, to identify individuals who ready to make the changes necessary to be successful.

- What would the ongoing costs of the program be?

The ongoing costs to the state would average $21,000 per ex-offender enrolled in Project Reclaim.

Early Childhood Pay for Success Opportunities in North Carolina

North Carolina Pay for Success Request for Information Response

Kenneth A. Dodge, Ph.D.

W. Benjamin Goodman, Ph.D.

Center for Child and Family Policy

Duke University

Robert A. Murphy, Ph.D.

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Duke
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CHILD & FAMILY HEALTH

EXECUTIVE SUMMARY

Pay for Success (PFS) represents an innovative strategy for leveraging private investments in public programs to benefit the citizens of North Carolina. Some of the strongest opportunities arise in the early childhood area, because the need for public support is obvious, scientific evidence of program effectiveness is strong, and the potential returns on investment have been mapped out by economists and found to be lucrative.

Beginning at birth, many families benefit from support in providing their children the resources, stimulation, and care they need to thrive. Without family support, children can fall behind in cognitive and behavioral development, as well as health and well-being, leading to poor outcomes in health, education, and welfare, and to public costs in health care, special education, and social services.

One approach to promoting family stability and children's development is short-term newborn nurse home visiting in a program called Family Connects. This voluntary program costs about $500-$700 per family and reaches out to every family giving birth in a community (i.e., every family is eligible for the program), assessing their unique needs, delivering brief evidence-based interventions, and connecting them with ongoing community resources that families need and want. Family Connects has been evaluated rigorously through a randomized controlled trial of 4,777 consecutive births in a North Carolina community. Those families randomly assigned to receive the program showed more positive parenting and higher quality home environments at age six months, less maternal postpartum depression and anxiety, and significantly fewer child emergency department visits and overnights in the hospital through age 24 months. Analyses of administrative records of health care costs show that each dollar invested yields three dollars of savings within the first year of program implementation. The program is likely to save dollars for several state government sectors, including Medicaid and social services.

The Family Connects program is currently being implemented successfully in several urban and rural communities in North Carolina, as well as in communities across the nation through funding from health departments, healthcare systems, and foundations. The program is a strong candidate for a North Carolina PFS endeavor.

The Family Connects program is administered through the Center for Child & Family Health in Durham, NC, in collaboration with the Center for Child and Family Policy at Duke University. Private investors have shown interest in supporting it because of the strong scientific evidence that it is likely to yield a positive return on investment within 12 months in health care savings. Third Sector Capital Partners has shown interest in supporting the contracting and administration of this program.

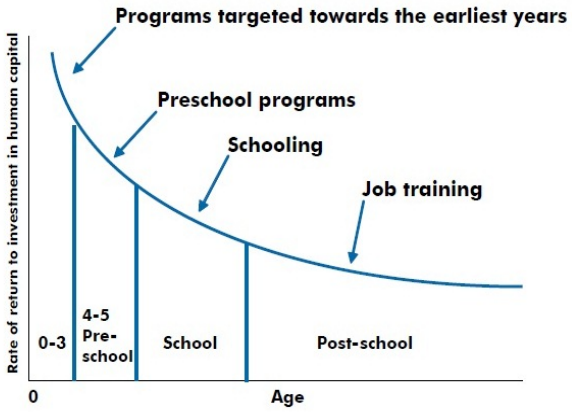
This document addresses the potential of PFS in early childhood and illustrates how Family Connects could be a key component of an early childhood PFS contract in North Carolina.

BACKGROUND

In the state of North Carolina, no group has suffered more from the lack of coordinated investments in evidence-based social and health services than children. Failure to invest in preventive services that promote the health and wellness of youth leads to their lifelong reliance on public services. Children exposed to adversity early in life, such as lack of routine healthcare, low quality or unsafe home environments, poor nutrition, and abuse and neglect, are much more likely to develop chronic illnesses, educational delays, mental health problems, and delinquency. These outcomes result in significant financial burdens on state health, juvenile justice, education, and social service systems.[1]

Early childhood programs shown to prevent costly outcomes are increasingly available. As shown in Figure 1, Nobel Prize-winning researcher James Heckman highlights the greater lifetime return on investments in early childhood programs, rather than waiting to providing services once children have already developed education delays or are engaged in high-risk health behaviors or criminal activity.[2]

Figure 1: Return to Dollars Invested at Different Periods of Life



Nurse home-visiting is a method of voluntary service delivery that has been successful in reaching families early in life across a variety of settings and contexts. These programs are designed to support parents and provide education about child health and development in order to improve child and family outcomes. Decades of scientific research demonstrate that nurse home-visiting programs in the first years of life improve the lives of both children and families by enhancing mother and child health, supporting positive parent-child relationships, reducing child abuse and neglect, and fostering school readiness. Research also shows that such programs can produce a positive return on investment, saving public expenditures on emergency medical care, child protective services, and special education.[3]

What role would your organization have in a pay for success contract?

The two organizations submitting this RFI, the Center for Child and Family Policy (CCFP) and the Center for Child & Family Health (CCFH), jointly implement the Family Connects newborn nurse home visiting program (http://www.familyconnects.org).

The Center for Child and Family Policy (CCFP), directed by Professor Kenneth Dodge, is a major research center within the Sanford School of Public Policy at Duke University. Its mission is to contribute to public policy toward children and families through research, translation of research into policy actions, and engagement with policy makers. The Center forges innovation in areas such as early child development, education policy, and prevention of adolescent problem behaviors. The Center employs 65 staff members who work with the Center's 44 faculty members. Its $8 million annual budget comes primarily from external research grants from the National Institutes of Health, Institute for Education Sciences, state governments, and numerous foundations.

The Center for Child & Family Health (CCFH), the clinical base for the Family Connects programs, is a community-based not-for-profit entity that operates in partnership with three major universities (Duke University, North Carolina Central University, and the University of North Carolina at Chapel Hill) with a mission of direct service, training, and research related to family well-being, child traumatic stress, and the prevention of child maltreatment. CCFH has built substantial expertise by integrating high quality clinical programs and training in evidence-based treatment and prevention programs with implementation science approaches designed to improve uptake and sustained use of interventions in North Carolina, across the country, and internationally.[4,5]

Collectively, these two organizations offer tremendous intellectual and physical resources, as well as extensive prior experience working with multiple government agencies, to support the execution of a PFS contract in North Carolina.

Family Connects (http://www.familyconnects.org), is a voluntary nurse home visiting program that provides support to the parents of every newborn in a community, at low cost ($500-$700 per birth) and with demonstrated positive return on investment for communities. Approximately 80 percent of families choose to schedule these home visits.

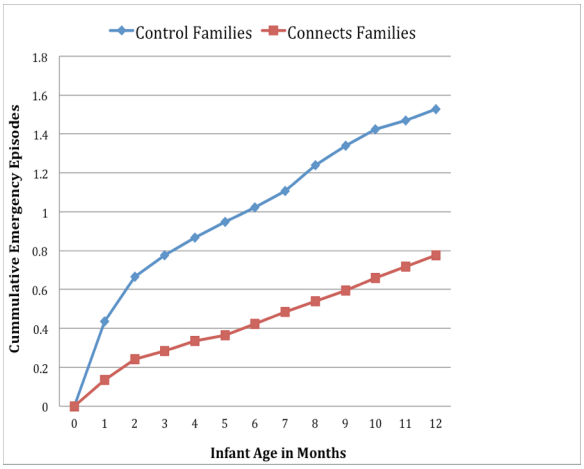
FAMILY CONNECTS
NURSE HOME VISITS

Key components of the Family Connects model include:

- Three to seven contacts between a registered nurse and a family, beginning at the hospital at the time of birth and continuing with one or more in-home visits from 3-12 weeks of age to bridge effectively the gap between family needs and community resources.
- Comprehensive in-home health checks for the mother and infant.
- Comprehensive assessment of family needs in 12 scientifically-derived factors predictive of child and family health and well-being, addressing the domains of 1) mother and child health and healthcare; 2) parenting and child care; 3) household resources and safety; and 4) mother well-being and social support.
- Tailored supportive guidance, including education about topics important to families of all newborns, such as need for a medical home and infant sleep and feeding.
- Nurse responses to parent questions about infant care, often about sleep, feeding, and crying.
- Depending on individually-assessed needs and family wishes, the nurse provides brief intervention to address identified needs, and/or connects families with external community resources to provide longer-term support in areas such as breastfeeding assistance, child care selection, financial resources, parenting classes, and/or professional resources to cope with post-partum depression, domestic violence, substance abuse, or other issues.

The Family Connects program was developed beginning in 2002 and subsequently tested through a randomized controlled trial of almost 4,800 families in Durham, NC. Evaluation findings indicate that mothers receiving the Family Connects program have less clinical anxiety, provide higher quality parenting, have safer homes with more educational resources (books and toys), and have more supportive connections in their community. **Most importantly for cost savings and shown in Figure 2, infants randomly assigned to receive Family Connects have 50 percent fewer emergency care episodes in the first 12 months of life than infants assigned as controls. Analysis of hospital administrative billing records associated with these emergency care episodes shows that each $1 investment in the Family Connects program generates over $3 in savings within the first year of implementation, through reductions in infant emergency care episodes.**[6,7]

Figure 2: Family Connects Families Experience 50% Fewer Emergency Care Episodes



What potential partners have you identified to fill other roles?

CCFP and CCFH have identified Third Sector Capital as a partner to advise in the initial design of a PFS contract and to provide technical assistance throughout the life of the contract. In addition, we are in communication with the Pritzker Group and The Duke Endowment about serving as private investors in a PFS contract involving Family Connects.

Third Sector Capital Partners (http://www.thirdsectorcap.org) is a 501(c)(3) nonprofit that specializes in evaluating PFS feasibility and brokering PFS contracts. Third Sector has advised governments on the viability of specific projects, negotiated contracts with PFS service providers, and can serve as an ongoing advisor to either government agencies or service providers once a PFS contract has been initiated. Third Sector has experience working with governments at the city, county, and state levels in evaluating and launching a wide variety of projects related to maternal and child health, early childhood education, child welfare, and juvenile justice (http://www.thirdsectorcap.org/projects/).

The Family Connects program was developed with funding from The Duke Endowment over the past decade. The Center for Child and Family Policy receives funding from numerous donors, including the J. B. and M. K. Pritzker Family Foundation. We believe that major funders of other PFS initiatives, including Goldman Sachs and J. B. Pritzker, will be interested in a PFS venture in North Carolina.

What experience does your organization have working with government entities?

CCFP and CCFH, separately and as collaborators, have successfully worked with a variety of government entities at both the local and state level. Specifically, CCFP and CCFH have experience working with health departments throughout the state in the implementation of the Family Connects program, including Durham County, Guilford County, Albemarle Regional, Beaufort County, and Hyde County. These experiences include negotiating and executing budgets and

contracts, training health department nurses in the Family Connects manualized protocol, monitoring ongoing program implementation quality, providing technical support, and generating reports on program delivery and outcomes.

CCFP and CCFH are currently working with both the NC Department of Health and Human Services (NC DHHS) and the governor's office in implementing and evaluating the Family Connects program in the four rural counties through the North Carolina Race to the Top Early Learning Challenge Grant. Specific experiences include negotiating and executing budgets and contracts, providing regular reports and other updates on program implementation quality and evaluation to NC DHHS and the governor's office, and collaborating with the state on a long-term sustainability plan for the Family Connects program in these counties. CCFP and CCFH work with multiple state agencies to acquire administrative records for Family Connects implementation, including the State Center for Health Statistics and the Children and Youth Branch of the NC Division of Public Health, and the NC Division of Social Services.

More broadly, the Center for Child and Family Policy has worked with numerous North Carolina state agencies since 1999 through contracts, agreements, and consultative relationships to implement human service programs, to evaluate the efficacy of programs, to provide data services, and to help write federal grant applications. CCFP has a 15-year ongoing Memorandum of Agreement with the North Carolina Department of Public Instruction to administer the North Carolina Education Research Data Center. This data center receives data files from the State, stores and prepares them for analysis, and distributes them to researchers who conduct studies that will improve the education of children in North Carolina. The work often involves merging education data files with similar files from other state government sectors, including vital statistics, criminal justice, juvenile justice, division of motor vehicles, labor, higher education, and human services. This expertise in collecting and merge administrative records from multiple government agencies will be essential in constructing and evaluating the impact of a PFS contract in North Carolina.

Further, scientists at the Center have had, and continue to have, contracts with the State of North Carolina to evaluate various state programs, including the Multiple Response System in child protective services and the system of care in various counties. CCFP has administered over $100 million in federal research grants that are awarded following competition, on topics that range from children's violence prevention to substance abuse and education policy. Agencies include the National Institutes of Health, the Institute for Education Sciences, the National Science Foundation, and the Administration for Children and Families. CCFP founded and leads the Durham Children's Data Center, that is a collaboration between Durham community agency directors and Duke University to address questions relevant to Durham's children and families. The Durham Public Schools, the Durham County Manager's office, the Durham County Health Department, the Durham Partnership for Children, and other agencies collaborate to identify important questions that researchers at Duke address through pro bono services.

The Center for Child and Family Health works with multiple government agencies in collaboration with CCFP, including the Race to the Top initiative described above. In fact, the state offices turn to our team for additional demographics about health care needs in these counties, such as teen births. In addition, CCFH has been active in developing trauma informed systems of care with local and statewide government entities within and beyond NC. For example, a grant from the Children's Bureau ahs allowed CCFH to work with NC's Department of Social Services (DSS) to develop county-based, trauma-informed child welfare systems. Practice improvements include a trauma-informed workforce, assessment protocols that screen for trauma, service coordination with providers of evidence-based mental health treatment, and training in protocols for child welfare providers and for foster parents that enhance their knowledge for integrate their knowledge of trauma and its effect into their interactions with maltreated children. Through a cooperative agreement with the Substance Abuse and Mental Health Services Administration, CCFH serves as a site within the National Child Traumatic Stress Network to improve trauma informed mental health and child welfare systems in NC and regionally. The NC Child Treatment Program at CCFH is a legislatively mandated program with annually recurring funding for disseminating evidence-based treatment for child traumatic stress across NC's 100 counties. The program is a partnership with NC's Division of Mental Health, Developmental Disabilities, and Substance Abuse Services. Clinicians meeting strict criteria for practice fidelity are placed on a statewide roster of EBT providers and through some of NC's Managed Care Organizations become eligible for enhanced reimbursement rates. Beyond NC, for example, CCFH has worked with public mental health and child welfare systems in VA and TN to disseminate evidence-based mental health treatments. CCFH provides trauma informed training and consultation for foster and adoptive parents and intensive, trauma-informed mental health assessment in 11 NC counties. As a Welcome Back Veterans Centers of Excellence, CCFH works with public (e.g., Mecklenburg County Women's Services and Veterans Services) and private care providers to improve availability and quality of mental health care for military families in community settings. Locally, CCFH provides mental health consultation, assessment, and treatment for Durham's Public Schools.

What experience does your organization have implementing and evaluating initiatives?

CCFP and CCFH have jointly implemented the Family Connects program in Durham County since 2008, providing voluntary nurse home visits to over 6,500 families, overseeing all aspects of program implementation from initial program conceptualization and development of the assessment tool and manualized protocol, to program piloting and refinement, to formal evaluation through a community-wide randomized controlled trials, to full implementation in Durham County.

CCFP and CCFH successfully oversee the dissemination of the Family Connects program to Guilford County, NC and to four low-income, rural counties in eastern North Carolina through the North Carolina Race to the Top Early Learning Challenge Grant (Beaufort, Bertie, Chowan, and Hyde counties). Beyond North Carolina, program dissemination is actively underway in the Quad Cities region of southeastern Iowa, and there are ongoing discussions for future dissemination in other communities within NC and across the United States.

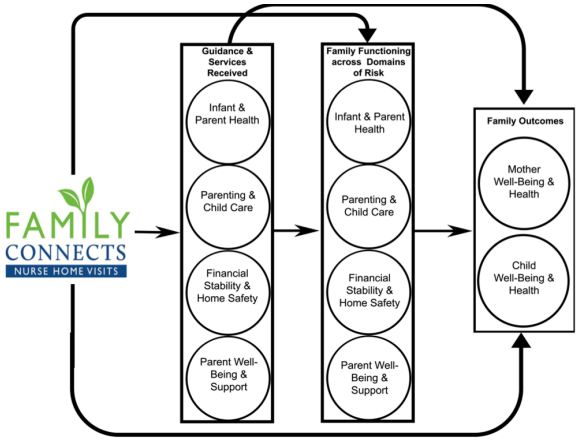
Our team endorses a *Learning and Mentoring Model* for disseminating the program to new sites. An extensive body of implementation research emphasizes that the best results for disseminating evidence-based practices are achieved when several key elements are included: 1) interactive learning sessions; 2) action periods between learning sessions for guided learning and practice of new skills; 3) consistent use of a manual for intervention, case-based consultation, mentoring, performance and fidelity monitoring; and 4) leadership and organizational support for the new practice. In a *Learning and Mentoring Model*, the cascading knowledge and mentoring from external experts to local experts has several benefits for programs adopting the evidence-based practice.[8,9] For Family Connects, advantages of this dissemination model include:

- Preserves best practices as the Family Connects model reaches larger audiences;
- Limits the need for external experts to conduct larger-scale local training sessions, systematically replacing external experts with local leadership;
- Promotes local ownership and expertise toward sustainability;
- Provides a monitoring structure for new programs to adopt standards to be certified as a Family Connects program; and
- Continues support for ongoing certification as the Family Connects evidence-based program.

With respect to program evaluation, CCFP and CCFH evaluated Family Connects through a randomized controlled trial in Durham, NC and now conduct ongoing monitoring of implementation at all sites. A variety of reports generated on a weekly, monthly, quarterly, and annual basis provide detailed information on all aspects of Family Connects implementation, including 1) the number of eligible families in a community that successfully complete the program (community reach); 2) nurse fidelity in adhering to the Family Connects manualized protocol and reliability in assessing family risk (all nurses are assessed quarterly by the nursing supervisor); 3) rates of successful family connections to community resources based on nurse referral; and 4) family/consumer satisfaction with their Family Connects nurse home visits.

CCFP and CCFH are currently conducting a 12-year evaluation study of families participating in the Family Connects RCT in Durham, NC. This evaluation involves both intensive in-home and telephone interviews with families participating in the Family Connects RCT, as well as administrative record reviews of all RCT families. Outcomes evaluated are consistent with the Family Connects logic model shown in Figure 3, and include community resource connections, mother and infant health and utilization of emergency health care, parenting and child care, mother mental health and well-being, home environment quality and safety, and child development and school readiness.

Figure 3: Family Connects Logic Model



Researchers at CCFP are also conducting an economic impact evaluation of the Family Connects in Durham. Through interviews with families and reviews of administrative records, including formal and informal community service records, healthcare records, education records, and federal tax returns, this work seeks to determine not only the total savings that may accrue to a community implementing Family Connects, but also how those cost savings are distributed across domains of family functioning and funding sources.

As part of our ongoing work with the state of North Carolina, we are currently conducting a 3-year impact evaluation of the Family Connects program dissemination in eastern North Carolina. This work is designed to compare a cohort of

families eligible for the Family Connects outcomes to those that gave birth in the same counties in the six months before the program. Specific outcomes assessed are consistent with outcomes examined in the Durham County evaluation.

In addition to the collaboration with CCFP with Family Connects, the Center for Child & Family Health is part of the Duke Evidence-based Practice Implementation Center (EPIC) and has been active in the National Child Traumatic Stress Network since 2003. To date, CCFH and EPIC have conducted more than 70 intensive training series (learning collaboratives, breakthrough series collaboratives) featuring multiple evidence-based interventions: Attachment and Biobehavioral Catch-Up, Child Parent Psychotherapy, Parent Child Interaction Therapy, Structured Psychotherapy for Adolescents Responding to Chronic Stress, and Trauma Focused Cognitive Behavioral Therapy, and Family Connects. CCFH is active in developing trauma informed systems of care, for example, a program with NC's Department of Social Services (DSS) that has introduced trauma informed assessment and practice in county DSS departments. CCFH is one of eight Welcome Back Veterans Centers of Excellence dedicated to improving quality of mental health care for military families in community settings. The NC Child Treatment Program at CCFH is a (NC) legislatively mandated program charged with disseminating evidence-based treatment for child traumatic stress across NC's 100 counties. Expertise developed across NC has allowed CCFH to extend its reach nationally, and recent training series have involved provider teams from CA, DC, GA, IL, MA, NJ, OK, RI, SC, TN, and VA.

Are there any actual or potential conflicts of interest if your organization were selected through a future procurement?

No actual or potential conflicts of interest exist for any members of the Family Connects leadership or staff at CCFP or CCFH, including the investigators preparing this RFI.

WHAT OUTCOMES SHOULD THE STATE PURSUE?

We recommend that the state pursue outcomes for early childhood: 1) early intervention can prevent problems that result in significant financial burdens to government, including child maltreatment, emergency medical care, and chronic illness and 2) early intervention produces a greater return-on-investment over time, estimated at 7-10% per year, through better outcomes in domains that receive government funding, such as healthcare.[10]

We recommend that the state pursue two types of outcomes in an early childhood PFS contract: 1) *cashable savings*, outcomes that result in cash savings to the state, to other government, and to private entities and 2) *benchmark* goals, outcomes that the state values and that can reduce government expenditures but may not translate into directly-measurable cashable savings.

With respect to outcomes that can be directly measured and are likely to result in cashable savings to government and private industry, we recommend that the state consider outcomes in the following domains:

1. *Healthcare*. North Carolina bears some of the highest Medicaid costs in the country, at nearly $10.5 billion a year. Over $2.5 billion of this amount is spent on health services for children, including costs that accrue from post-birth emergency room visits and post-birth re-hospitalizations.[11] Although cost containment efforts that prevent fraud and reduce payment levels are an important focus of reform in NC, the approach alone does not address the largest cost driver of Medicaid spending—poor health.

   Research has shown that the Family Connects program positively affects family health and health care expenditures[6,7], and health care utilization and expenditures can be measured through administrative records. We recommend that the state utilize Medicaid and private insurance administrative records to evaluate utilization and costs for multiple healthcare outcomes in the early childhood period, including mother and child emergency room visits and hospitalizations, as well as mother mental health treatment for postpartum depression and anxiety, as a means evaluating cashable savings generated through a PFS contract.

With respect to benchmark outcomes that are valued by the state but for which cost savings may be broadly dispersed, not directly measurable, or not fully realized until after an initial PFS contract is completed, we recommend that the state pursue outcomes in the following domains:

1. *Healthcare and Well-Being*. The importance of a strong connection to a primary medical home and engagement in routine preventative primary care is a core component of the guidance offered for families receiving Family Connects. A medical home and routine preventative healthcare have been shown to produce an excellent return on investment through decreases in costly emergency room visits and inpatient hospitalizations, as well as reductions in complications arising from chronic health problems.[12] We recommend that the state evaluate administrative records

for PFS impact on multiple outcomes related to mother and child health and well-being, including adherence with routine medical care (mother postpartum visits and well-child visits), as well as child immunizations.

2. *Child Maltreatment.* In 2012, over 9,000 cases of preventable child abuse and neglect were substantiated among children 0-5 in North Carolina.[13] These instances of child maltreatment cause great anguish to children and families and result in great financial burdens on state health, juvenile justice, education, and social service systems. It has been estimated that one substantiated abuse case costs over $210,000.[14] Given the significant savings across a wide range of government programs that could be realized through reductions in early childhood maltreatment, we recommend that the state utilize administrative records through the NC Division of Social Services to evaluate PFS impact on investigations and substantiations of child abuse and neglect.

What evidence exists for baseline comparison?

Multiple approaches could be utilized to establish baseline comparisons for the purpose of measuring cashable savings and achievement of benchmark outcomes in the above domains through a PFS contract, including:

1. *Randomized Controlled Trials (RCT)*. We recommend the use of RCTs in any PFS contract administered by the state. RCTs represent the most rigorous approach to establishing baseline comparisons for program impact. Well-conducted RCTs are regarded as the strongest method of evaluating the effectiveness of program, practices, and interventions, per standards established by a wide variety of government and scientific bodies, including the Congressional Budget Office, National Academy of Sciences and the National Institutes of Health. In a RCT, individuals are assessed for eligibility and then randomly assigned to either a treatment group (i.e., eligible for PFS-funded program) or a control group (i.e., not eligible for PFS-funded program but eligible for all other services as usual). The only difference between the two groups is whether an individual was eligible for the PFS-funded program, so potential bias is minimized; and differences in outcomes observed between the two groups can be attributed to program impact. The specific design of a RCT could vary based on the needs and preferences of the state. Randomization could, for example, occur within a particular community, or across multiple counties, with some counties receiving the PFS-funded program, and others serving as a matched comparison group.

2. *Matched Comparison Groups*. One alternative to a RCT is to compare outcomes for communities that receive the PFS-funded program(s) to outcomes for demographically similar communities that do not receive the PFS-funded program(s). This approach is similar to a RCT implemented across counties/communities but would not involve randomization prior to program implementation. This approach attempts to replicate, as closely as possible, a RCT design and could be utilized if random assignment was not feasible. Although it is not possible to determine with the same level of certainty as in a RCT, any decreases in service costs or utilization for a particular outcome in the communities in which the program was implemented, relative to the matched communities that did not receive the program, would be attributed to program impact.

3. *Comparisons of Historical Trends.* A second alternative to a RCT is the use of historical data within a particular county or community to establish a baseline for comparison. Historical administrative records over a period of time (e.g., 5 years) would be evaluated to determine average costs and utilization rates for a particular outcome in a community. The PFS-funded program(s) would be implemented in the community and the same administrative records would be monitored on an ongoing basis. Similar to a matched comparison design, any decreases in service costs or utilization for a particular outcome after program initiation would be attributed to program impact.

What investment would be required by investors?

Implementation of the Family Connects program by CCFP and CCFH would require investors to invest in 1) the initial startup costs in each community; 2) the cost of program implementation in each community; and 3) the cost of annual program monitoring and quality assurance by CCFP and CCFH. The specific number of communities served by Family Connects can be adjusted based on both the preferences of the state and the size of the initial PFS investment.

Initial startup costs are estimated at $40,000 - $50,000 per community served. Family Connects program implementation costs are estimated at $500 - $700 per family giving birth. Finally, CCFP and CCFH provide technical support and ongoing monitoring of program quality for all communities implementing the Family Connects program. Costs for this ongoing quality assurance and technical support are estimated at $4,000 - $5,000 per community annually.

What payments would be expected from the state?

The state is expected to accrue benefits in several forms, including immediate tangible cash savings, deferred cash savings, and intangible benefits for which the citizens of North Carolina would show a willingness to pay. Cash savings

are expected to accrue from reduced Medicaid payments for emergency department visits and overnights in the hospital for infants beginning by age six months and lasting at least through age 24 months. The published randomized controlled trial of the Family Connects Program demonstrates that for every dollar invested in the program at birth at least three dollars will be saved in expected health care costs. About 64 percent of these dollars came from Medicaid. Costs for the Medicaid program in North Carolina come from both federal and state sources, so the savings will accrue to both units.

Evaluation of Family Connects suggests that deferred savings are likely to accrue in other sectors, including maternal health care and mental health care costs and social services. Additional benefits of the Family Connects Program include improved parental functioning, family home safety, and father involvement in raising the infant. These are benefits that are valued by the citizens of NC and for which the citizens might be willing to pay.

We propose success payments based on these immediate, deferred, and intangible savings. The state would be expected to make success payments on a graduated scale determined by realized cashable savings and benchmarks achieved. If all cashable savings and benchmarks are fully realized, the State would be expected to repay the full initial investment, plus a nominal interest rate (e.g., 5-10%). Any cashable savings remaining after investor payments would be retained by the state; the contract would be structured so that the state always has a net financial benefit, and a higher levels of success, would achieve greater savings. The payments could come from savings to Medicaid costs to the state and financial value assigned to the achievement of benchmarks that produce savings accrued across multiple levels of government.

What opportunities exist to partner with local governments to achieve savings at multiple levels of government?

Family Connects is currently implemented in six counties in North Carolina. Program partnerships in NC involve multiple existing and potential partnerships with opportunities for cost savings and better outcomes for infants and young children and their families. Programs are either housed in county health departments (Beaufort, Bertie, Chowan, Guilford, and Hyde Counties) or in community settings (Durham) that have strong integration with health department services. With many psychosocial services supported fully or in part through county funds, Family Connects may improve the quality and financial security of health department programs and psychosocial interventions receiving county funds.

With its service connection emphasis, Family Connects improves the match of infant and family need and service type so that families are more likely to engage in and sustain their involvement, thereby reducing costs associated with inappropriate referrals, high service drop out rates, and extended unsuccessful outreach to engage families. Greater efficiency means that more families receive appropriate services and derive greater benefit from greater engagement and participation, likely at lower cost. In other words, families have access to what they need, no more and no less. These benefits may accrue to health department services, publicly financed medical clinics, and community agencies receiving local support. Similar patterns of improved service match accrue to social services and child protection agencies.

More effective, efficient services portend savings for state (and federally) funded programs. For example, the demonstrated reductions in emergency medical costs resulting from Family Connects should especially benefit Medicaid, the insurer responsible for the largest proportion of births in NC. Similarly, better connection and appropriate use of available benefits (e.g., WIC) can maximize the draw down of federal dollars, thereby offsetting pressure on scarce state and county resources that could be allocated toward other needs.

Other beneficiaries that receive public support include child care centers, health outreach and community programs serving hard-to-reach families, state-supported managed care organizations responsible for the efficient management of mental health services, and funders responsible for reimbursement for mental health care for the uninsured.

HOW SHOULD THE STATE MEASURE AND PAY FOR SUCCESS?

We recommend that the state explore multiple measures of "success", including 1) outcomes that reflect direct cashable savings for government at the state, local, and federal levels and 2) payments for other benchmarks of success may not result in directly-measureable cashable savings during a PFS-contract but that reflect improvements in child and family health and well-being that are likely to generate long-term savings and economic benefits for the state across a variety of domains. In order to increase the likelihood that a PFS contract will generate cashable savings and other benchmarks of success, we recommend that the state target outcomes demonstrated as obtainable through previous research.

What metrics should the state use?

Overall, we recommend that the state utilize government administrative data to the greatest extent possible. By measuring outcomes utilizing administrative data that are already collected for other purposes, costs of program impact evaluation are reduced as much as tenfold, compared to collecting original outcome data.[15] These administrative records are already

collected on an ongoing basis, PFS program impact can be evaluated more quickly – providing "rapid-cycle" feedback on program impact on an ongoing basis, rather that waiting for the expensive and time-consuming process of original data collection to be completed. We recommend use of administrative data as an objective measure of established benchmarks and cashable savings, reducing the potential for ambiguity in determining specific impact of a PFS-funded program.[16]

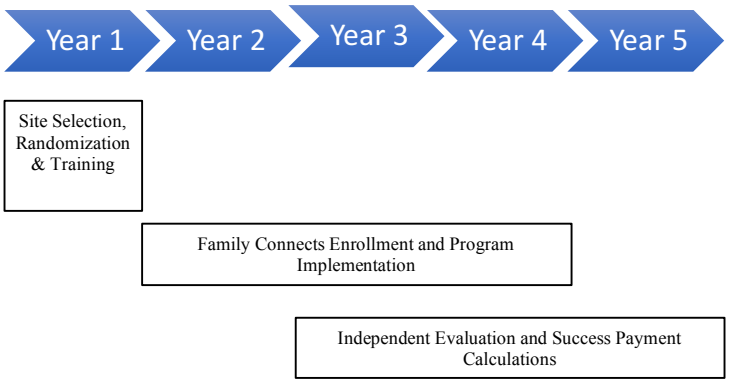
With respect to specific metrics, we recommend targeting metrics in the early childhood period that research demonstrates have been directly affected by the Family Connects program, as well as metrics likely to demonstrated program benefits for domains such as parenting and home environment quality. Examples of possible metrics include:

1. Utilization and costs associated with emergency room visits and inpatient hospitalizations among mothers and young children, with a particular emphasis on Medicaid / NC Health Choice families. Records could be obtained through the NC Department of Public Health.
2. Utilization and costs associated with maternal mental health treatment for postpartum depression and anxiety, with a particular emphasis on Medicaid families. Records could be obtained through the NC Department of Public Health.
3. Investigations and substantiations for child abuse and neglect, with records from the NC Division of Social Services.
4. Compliance with routine child immunizations, measured utilizing records from the NC Immunization Registry.

What time period should the state set for intervention and evaluation?

The specific time period for intervention and evaluation would necessarily vary based on a variety of factors, including the size of the initial capital stack provided by private investors, the number of counties or communities served, and the specific program(s) selected for a PFS contract. For the Family Connects program, an initial PFS contract could be designed for a 5-year implementation and evaluation period. As shown in Figure 4, selection of counties / communities, randomization, and initial site training could begin in Year 1, with full implementation beginning in Year 2. Based on previous research indicating that infants randomly assigned to receive the Family Connects program have 50 percent fewer emergency care episodes in the first 12 months of life[4], independent evaluation of program effectiveness and initial re-payment to investors could begin as soon as Year 3, 12 months after full implementation begins.

Figure 4. Possible Family Connects PFS Project Timeline



At what interim dates should the state evaluate outcomes?

Specific interim dates for evaluation will vary according to specific outcomes of interest but broadly could begin 12 months after initial program implementation and continue at 12-month intervals for the duration of the PFS contract. With respect to specific outcomes proposed in this RFI, evaluation of program effectiveness on mother and child emergency room visits and inpatient hospitalizations, as well as mother mental health treatment for postpartum depression and anxiety could begin 12 months after initial program implementation. Outcomes for which evaluation of program effectiveness would take longer to realize, such as child immunization rates and investigations and substantiations of child abuse and neglect, can be evaluated beginning 24-36 months after initial program implementation.

What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

Based on Family Connects impact evaluation results to date, as well as broader scientific evidence, actuarially-based costs per individual without an intervention include the following:

Infant Emergency Department Care. Family Connects RCT results based on billing records from the Duke University Health System indicate that children randomized to the control group had a per-child cost of $2,730 for ER visits and inpatient hospital overnights between birth and age 12-months (excluding the initial birthing stay). In contrast, children randomized to receive Family Connects had a per-child cost of $751 for ER visits and inpatient hospital overnights, a savings of almost $2,000 per child. For the Durham, NC community that includes 3,200 eligible births per year, a $2.2 million investment in Family Connects (at $700/birth) would yield $6.4 million in savings through reductions in infant emergency department care.[6,7]

Mother Medical Care and Mental Health. Approximately 5% of all mothers utilize emergency department care at least once in the first two months postpartum. Further, 10-20% of all women experience depression during pregnancy on in the first 12 months postpartum. Although specific costs for postpartum depression are unknown, costs for depression treatment in the U.S. exceeded $26 billion in 2000. Further, women with depression generally have more expensive medical claims than men with depression; and children with depressed mothers have been found to use health care services, including office and emergency room visits, more frequently than children of healthy women.[17] Family Connects RCT results demonstrated significant program impact on postpartum mental health, including a 50% reduction in postpartum depression and 28% reduction in anxiety.

Child Maltreatment. As previously noted, over 9,000 cases of preventable child abuse and neglect were substantiated among children 0-5 in North Carolina in 2012.[13] It has been estimated that one substantiated abuse case costs over $210,000, placing financial burdens on state health, juvenile justice, education, and social service systems.[14] Family Connects RCT results indicate the program positively affects multiple domains associated with child maltreatment risk, including parent-child relationship quality, mother mental health, home environment safety, and connections to community supports.[6]

Child Immunizations. In 2013, over 26% of all North Carolina 2-year-olds were not fully immunized, despite immunizations representing one of the most effective preventative health care measures available.[18] Routine immunization provides excellent return on investment: it is estimated that each $1 spent on routine child immunization generates $10 in direct healthcare cost savings through decreases in costly emergency room visits and inpatient hospitalizations, as well as reductions in complications arising from illness and other health problems.[19]

HOW WOULD YOUR PROGRAM EXPAND THROUGH SCALE OR REPLICATION?

The Family Connects program was designed to be transportable and has implemented and evaluated at scale from the time of initial program installation. CCFP and CCFH are prepared to disseminate the program to new communities throughout North Carolina, utilizing the *Learning and Mentoring Model* that includes 1) interactive learning sessions; 2) action periods between learning sessions for guided learning and practice of new skills; 3) consistent use of a manual for intervention, case-based consultation, mentoring, performance and fidelity monitoring; and 4) leadership and organizational support for the new practice.[8,9] New communities could be select based on community readiness and organizational ability to implement a universal home visiting program.

What continuing role would your organization have in continuing the program?

CCFP and CCFH would oversee model training and dissemination for all new communities. The dissemination model involves staff training in Durham and on-site with continuous monitoring of implementation of the evidence-based program in the new setting. CCFP and CCFH would also continue to provide ongoing consulting and data monitoring to ensure high quality implementation in all communities.

What role would the state have in continuing the program?

If cost savings and PFS benchmarks are realized, multiple options exist for state involvement in sustainable program funding beyond the PFS contract period. One option would involve conducting a second PFS contract. In such a scenario, private investors could continue to fund the PFS program(s) in the existing communities and/or new communities and continue to receive payments from the state based on cashable savings and realized benchmarks. Such an approach would protect government dollars in the event that continued savings were not realized, but would require identifying new or existing investors for a second PFS contract. An alternative approach would involve leveraging government savings produced from a PFS contract to sustain program implementation. After paying back PFS investors, the state could utilize any remaining cashable savings to pay for future program implementation (i.e., a feedback loop), producing a source of sustainable funding that requires neither new government funds above and beyond those already allocated, nor new private investment funds.

If Family Connects were sustained beyond the duration of the initial PFS contract, CCFP and CCFH would also participate in regular meetings with state to ensure continued high quality program implementation.

What would the ongoing costs of the program be?

After installation, Family Connects implementation costs are estimated at $500 - $700 per family giving birth. Addition costs for ongoing quality assurance and technical support are estimated at $4,000 – $5,000 per community annually. These costs would remain constant throughout the period of program implementation.

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Children's Home Society
OF NORTH CAROLINA

August 11, 2015

Executive Summary

Children's Home Society of North Carolina is located in Greensboro, North Carolina and was founded in 1902. Our mission is to promote the right of every child to a permanent, safe, and loving family. While we provide a wide array of child welfare and parent education services, we have a specific focus and expertise in providing foster care services. More specifically, we provide services that are designed to prevent children from entering foster care, to help children leave foster care to a permanent family, and support families who have adopted children from foster care. While each of these programs has a specific target population they share similar target outcomes, which are to reduce the number of children entering foster care and increase the number of children exiting foster care to a permanent family. Children's Home Society has three primary ways of accomplishing these desired outcomes; intensive family preservation services, foster care to permanency services (traditional adoption, Family Finding, Child Specific Adoption Recruitment), and post adoption support services.

For the purposes of this Request for Information, Children's Home Society (CHS) has identified these three service areas because; the target populations are underserved and the desired outcomes have the potential for cost avoidance for the state and improved wellbeing outcomes for children. Furthermore, these are core services that meet federal outcome requirements.

Children's Home Society has a history of providing these services in North Carolina and a commitment to improving outcomes for the children and families we serve. CHS also has experience with implementing new initiatives, evaluating programs, and working with local, state, and federal partners, as well as other stakeholders. We believe that these factors contribute to CHS being a good fit for a Pay for Success project. We appreciate the opportunity to respond to this Request for information and look forward to an ongoing conversation about the different possibilities that we have outlined in this document.

Background

What role would your organization have in a pay for success contract?

Children's Home Society would play the role of service provider. The child welfare services we have identified for consideration in a Pay for Success project include; intensive family preservation, foster care to permanency (e.g. traditional foster care to adoption, Family Finding, child specific adoption recruitment), and post-permanency support services. CHS is

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interested in exploring the Pay for Success opportunity with some combination of these services.

What potential partners have you identified to fill other roles?

Children's Home Society has identified the following general partners with whom we have existing relationships; North Carolina General Assembly, North Carolina Department of Health and Human Services Division of Social Services (DHHS-DSS), County Department of Social Services (DSS) agencies, university and research partners, private philanthropy organizations, and an organization with pay for success experience.

CHS has identified Kevin Kelley as a point of contact at DHHS-DSS. CHS is the provider of multiple state contracts that fall under Mr. Kelley's leadership and we work closely with his staff on these programs. In addition to our work with the state, we work in partnership with almost all 100 County DSS agencies in some capacity to provide services to children and families.

CHS also has established relationships with organizations that have data, research, and evaluation expertise. The Jordan Institute at UNC Chapel Hill currently manages much of the data analysis regarding child welfare in North Carolina. The Jordan Institute also has faculty with expertise in child welfare reform as well as significant knowledge and experience with the pay for success model. CHS has worked in partnership with the Jordan Institute over the years in a variety of capacities.

CHS has worked closely with Child Trends for a number of years. They were the lead evaluator on a random control trial evaluation of one of our programs. Child Trends is a third party 501 (c) 3 nonprofit, nonpartisan research center that provides valuable information and insights on the well-being of children and youth. CHS recently initiated a relationship with Abt Associates, which will be conducting a random control trial evaluation of another of our programs through a federal grant. Abt Associates is a mission-driven, global leader in research, evaluation and implementing programs in the fields of health, social and environmental policy, and international development.

CHS has worked closely over the years with both The Edna McConnell Clark Foundation and The Duke Endowment. Both of these foundations have experience in the child welfare field and have working knowledge of the Pay for Success model. These foundations have also provided financial support over the years to the services that we have identified in this document.

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Lastly, CHS has had a relationship with Third Sector Capital for a number of years and has had multiple conversations with their staff to learn about the Pay for Success model and how it could fit with the work of CHS. Third Sector Capital Partners, Inc. is a 501 (c) 3 nonprofit that leads governments, high-performing nonprofits, and private funders in building collaborative, evidence-based initiatives that address society's most persistent challenges. As experts in innovative public-private financing strategies, Third Sector is an architect and builder of the nation's most promising Pay for Success projects including the Commonwealth of Massachusetts and Cuyahoga County, Ohio. Third Sector is a grantee of the Corporation for National and Community Service's Social Innovation Fund. CHS has been in contact with Third Sector since the release of the Pay for Success RFI was released in North Carolina.

What experience does your organization have working with government entities?

Children's Home Society works closely with local, state, and federal government entities on a daily basis. CHS is currently implementing a multi-year federal grant award with the Office of Adolescent Health. CHS delivers services under multiple contracts with DHHS-DSS, including one contract that was established through a direct appropriation from the North Carolina General Assembly. This contract includes a Legislative Oversight Committee that CHS works with to review the barriers and facilitators to implementing new and innovative child welfare services. CHS also delivers foster care, adoption, and other child welfare services under a variety of County DSS contracts. CHS also works closely with multiple public school districts to deliver a teen pregnancy prevention program with middle school age boys, which is the focus of the random control trial evaluation that will be initiated by Abt Associates. CHS also has staff whose job responsibilities includes, but are not limited to, working closely with our local, state, and federal partners to manage contracts and support program satisfaction and outcomes.

What experience does your organization have in implementing or evaluating initiatives?

Children's Home Society has implemented a number of initiatives over the years. The most recent initiative is the Permanency Innovation Initiative (PII), which, as mentioned above, was established through a direct appropriation from the North Carolina General Assembly. This initiative has required CHS to work with DHHS-DSS to establish a scope of work, identify target performance measures, and develop a new contract. PII services began in January 2014 under a 6 month contract. The contract was updated for the 2014/2015 fiscal year and we have recently begun providing services under a newly updated contract for the 2015/2016 fiscal year. In order to effectively deliver services, CHS has been working with County DSS agencies and other local stakeholders.

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CHS also has experience with program evaluation. CHS currently delivers two programs that have been involved in rigorous evaluations with outside researchers. Family Finding underwent a random control trial evaluation that was conducted by Child Trends. Family Finding is one of the programs funded by the Permanency Innovation Initiative. CHS is currently conducting a formative evaluation with Child Trends to continue learning about adaptations that have been made to the Family Finding model. CHS worked with UNC Greensboro to evaluate the Wise Guys program model and is preparing to implement a random control trial evaluation with Abt Associates. CHS also has a quality improvement department that is responsible for managing internal program evaluation and reporting, as well as working with program staff to make programmatic improvements.

Provide other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

Children's Home Society was founded in Greensboro, NC in 1902. Over that time, the organization has not only grown but it has continually evolved to meet the new and emerging needs that children and families face in North Carolina. CHS has always placed a value on excellence and innovation in our mission's work. We believe that our long standing commitment to families, our continuous quality improvement, and our sustainability make CHS a good fit with the intent of a Pay for Success approach. We do not envision any potential conflicts of interest at this time.

What outcomes should the state pursue?

The outcomes that the state should pursue fall within the child welfare section of the Department of Health and Human Services Division of Social Services. Children's Home Society has identified three areas of focus, which include prevention of foster care placement, foster care placement to permanency, and post permanency support services. While each area has slightly different target populations the outcomes are related to reducing the number of children entering costly publicly funded foster care and increasing the number of children who are exiting foster care to a permanent family.

Prevention services would include intensive family preservation services. Family preservation services target children who have been identified by a County DSS agency and are at risk of coming in to foster care. The goal of this service is to improve the functioning of the family and prevent the child(ren) from coming in to foster care. CHS utilizes the Homebuilders model, which is supported by research evidence.

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Foster care to permanency services would include traditional family foster care to adoption services as well as innovative services such as Family Finding and Child Specific Adoption Recruitment. The family foster care services target children in foster care of any age who have recently become, or will soon become, legally free (i.e. a judge has terminated the legal rights of the parents/guardians) and have a case plan to be adopted. The goal of this service is for the child(ren) to exit foster care by matching them with a trained and license adoptive family. The Family Finding service targets children who tend be older, have been in long term foster care (i.e. more than two years), and are at risk of remaining in foster care. The goal of this service is for the child(ren) to exit foster care by identifying a family member who can take them in to their home permanently either through legal custody, guardianship, or adoption. The Child Specific Adoption Recruitment service targets children who are legally free for adoption, tend be older, have been in long term foster care (i.e. more than two years), and are at risk of remaining in foster care. The goal of this service is for the child(ren) to exit foster care by matching them with a trained and licensed adoptive family or a biological family member who can take them in to their home permanently through adoption.

Post permanency support services would include clinical post adoption support services, which could also be extended to post permanency services (i.e. post guardianship, custody, or reunification) under a Pay for Success model. The clinical post adoption services target children and families who have finalized an adoption from foster care and are experiencing issues that could lead to the disruption of the adoption and the child(ren) returning to foster care. The goal of this service is to help the child(ren) adjust to a new family, provide the parents with more effective parenting skills, and ultimately strengthen the family so that the adoption remains intact and the child does not return to foster care. CHS utilizes a variety of evidence based program models and delivers services based on the unique needs of the family.

All of these outcomes are related to improvements experienced by the child and family. However, in all areas described above, the child and family outcomes translate to avoided costs at the county, state, and federal level. There is a per day and per child cost associated with all children in foster care that is based on their age and placement type. Services that reduce the number of children entering foster care and increase the number of children exiting foster care have an immediate impact on the costs incurred by local, state, and federal government.

What evidence exists for a baseline comparison?

All children who come in to contact with the DHHS-DSS are being tracked and many of the baseline indicators that relate to the services mentioned above are being reported on regularly. DHHS-DSS collects data on measures that would be necessary to establish a baseline

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and track progress towards target goals. DHHS-DSS currently has internal capacity and an external partnership with the University of North Carolina at Chapel Hill for tracking and reporting on the relevant data. The evidence used for a baseline comparison would depend upon the specific target population and outcome. For the prevention of foster care placement, the evidence could include the change in the number of new children coming in to foster care as compared to an established baseline number of new entries to foster care. For the foster care to permanency services, the evidence could include the change in the number of children exiting foster care as compared to an established baseline. A slightly more nuanced comparison could a change in the number of children who are waiting to leave foster care to a permanent family and the length of time it takes for children to exit foster care. Lastly, for the post permanency services the evidence could include the change in the number of children who re-enter foster care due. The management of this data is led by DHHS-DSS with the support of the University of North Carolina at Chapel Hill. Further discussion with these entities would be necessary to determine both capacity for tracking and reporting and the best options for a baseline comparison.

What investment would be required by investors?

The required investments would be directed toward building the capacity to deliver the services mentioned above. The investments would be made in hiring professionals to serve children and families, training staff in the relevant service models, administrative support, data tracking and program evaluation, and other costs associated with implementing new or expanded programming. The size of the investment would depend upon the target populations, the services identified to be delivered, and the desired outcomes. For example, in 2014, 35% of the children who were legally free for adoption remained in foster care, which translates to 581 children who could have benefited from traditional family foster care to adoption services. More than half of these waiting children (54%) were ages 11- 17 years old and at even greater risk of remaining in foster care and would benefit from Child Specific Adoption Recruitment. From 2011 – 2014 the number of children who were legally free for adoption and remained in foster care fluctuated from 28% (488 children in 2012) to 40% (642 children in 2013). These numbers do not include the children who are waiting to exit foster care to reunification, custody, or guardianship and would benefit from Family Finding. They also do not include the number of children who are at risk of entering foster care and would benefit from family preservation services. Nor do they include the number of children who have been adopted and who could benefit from clinical post adoption services. Both of these target populations will be described in more detail below.

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What payments would be expected from the state? (rough order of magnitude)

Children's Home Society does not have enough information at this time to answer this question.

What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

There is an opportunity for a private not for profit agency, such as Children's Home Society, to partner with the Department of Health and Human Services Division of Social Services at the state level and with multiple (if not all) County Department of Social Services agencies at the local level. Because much of the child welfare funding comes from Title IV-E and IV-B funds there could be an opportunity for federal partners as well. Children's Home Society currently works with DHHS-DSS and has ongoing partnerships with most of the county agencies. These established working relationships can be leveraged to increase the scope of the services and achieve benefits at the local, state, and federal level.

How should the state measure and pay for success (cashable savings, wellbeing benefits, and willingness to pay)?

What metrics should the state use?

The state has the opportunity to measure success based on a willingness to pay, the wellbeing benefits of these programs, and cashable savings.

First, all children should be afforded the right to be raised in a safe, permanent, and loving family. Not only is this the environment in which children thrive, family is also the base of support that is necessary for a successful transition to adulthood. Furthermore, the public child welfare system has a federally mandated priority to place children with a permanent family. Based on these two factors, the state should have a willingness to make every effort to prevent children from coming in to foster care, decrease the length of time a child is in foster care, and increase the number of children who are leaving foster care to a permanent family.

Second, the exposure of long stays in foster care can have a negative impact on the well-being of children. This is most evident among children who remain in long term foster care and age out when they turn 18 years old without a permanent family. The Midwest Evaluation of the Adult Functioning of Former Foster Youth shows that over time these children are significantly less likely to graduate from high school and attend college, more likely to be unemployed or incarcerated, and more likely to rely on government benefits than their peers who did not

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experience foster care. Alternatively, children who are adopted from foster care are comparatively more likely to make successful transitions from adolescence to adulthood.

Lastly, the cost associated with foster care can be high, especially for those children who spend multiple years in foster care. These costs are associated with the age of the child and where they are placed while in foster care. When family preservation services are successful in meeting the desired outcome, the foster care costs are avoided because the child did not enter foster care. When a child is in foster care the cost is accrued on a daily basis. When a child exits foster care to a permanent family the costs cease immediately. All future foster care costs are also avoided if that child would have otherwise remained in foster care. When post adoption support services are successful in meeting the desired outcome, the foster care costs are avoided because the child did not re-enter foster care.

What time period should the state set for intervention and evaluation?
At what interim dates should the state evaluate outcomes?

Children's Home Society does not have enough information to answer these questions. The answers to these questions would depend on the services identified for a Pay for Success program.

What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

The cost per individual in foster care fluctuates based on the age of the child and their placement type. The range can be from approximately $11,000 annually to more than $50,000 annually. This only includes foster care maintenance and administrative payments, which are required for all children in foster care and does not include Medicaid costs or other supportive services that are being provided while a child is in foster care.

As provided through current contracts, the cost per year to serve a client with Family Finding or Child Specific Adoption Recruitment services is approximately $10,000 per child. The full length of the intervention can range between at least 12 months to more than 24 months depending upon the challenges related to finding the right match and preparing the child(ren) and family for the transition from foster care to a permanent family. The cost to serve a client with family preservation services is approximately $6,000 and the cost to provide post adoption support services is approximately $1,000 per client. The cost to serve a child from family foster care to adoption can range significantly based on the length time of they are in foster care prior to a completed adoption. The cost, however, would include the required foster care maintenance and administrative payments plus approximately $7,000 for the

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specific work related to recruiting and training the adoptive family and completing the legal proceedings required to finalize an adoption.

One of the following two

What continuing role would your organization have in continuing the program?

While the programs being described here are not new, some of them would be newly delivered in certain parts of the state. Rather than introduce any new programs, the goal would be to identify areas of high need and increase the capacity of some or all of the programs identified in this document. In order to increase the capacity of these programs, it would be necessary to identify the target population, the desired outcome, and the regions of North Carolina that are currently most underserved.

For example, the demand goal of our family preservation services contract identifies that in two of the eleven regions of the state (representing 29% of the statewide target population) there are more than 4,000 children who need this service. However, Children's Home Society as the sole provider in these two regions is contracted to serve 149 families. Based on past data of the number of children served, Children's Home Society will be able to serve approximately 10% of the target population in need of family preservation services. The family preservation services contract identifies the statewide need to be in excess of 15,000 children. Children's Home Society does not have enough information to know what percentage of this target population will receive these services.

Similarly, the demand goal of the state contract to deliver Family Finding and Child Specific Adoption Recruitment services is to reduce the number of children who remain in foster care and ultimately "age out" when they turn 18 years old. The contract estimates that 500 children in foster care will turn 18 this year and age out of foster care without a permanent family. Children's Home Society is targeted to serve 278 children in foster care who are 9 – 17 years old. We do not have access to enough information to know the total size of the target population in need of these services. While there is not a specific contract to provide family foster care to adoption services, it has been identified above that at least 30% of the children who are legally free for adoption every year will remain in foster care. This past fiscal year, Children's Home Society maintained approximately 300 children in our family foster care program and completed adoptions for over 100 children in foster care.

Lastly, Children's Home Society is contracted as the sole provider of post adoption support services in six of the 11 regions in the state. In those six regions, there are 3,511 adoptive families identified in the contract as in need of services. Children's Home Society is contracted to provide case management services to 191 adoptive families and screening and assessments

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to 180 adoptive families. Assuming there is not any duplication between these families, we will be able to serve approximately 11% of the identified target population.

All of these programs are designed to serve a specific target population for the purpose a specific desire outcome. However, the current capacity of these programs in North Carolina does not meet the total demand. In order to better meet the demand, the scale of these programs will have to be increased. North Carolina can better serve these populations by identifying the areas of the state with the greatest need and then identifying the scale at which these services should be provided. While there will be a required investment to increase the scale of these services, they hold the potential to avoid the costs associated with publicly funded foster care and improve the wellbeing of the children served.

What role would the state have in continuing the program?

Children's Home Society is not in a position to answer this question.

What would the ongoing costs of the program be?

The ongoing costs of the program would depend upon the scale at which these programs are delivered over time. It is premature at this time for Children's Home Society to project ongoing costs.

If a discontinuation effort, how would service to the target population improve without the program?

Children's Home Society is not proposing that any existing programs should be discontinued.

CSH Response to the North Carolina Pay For Success Request for Information, 49-GOVPFS2015
August 2015

EXECUTIVE SUMMARY

CSH is proposing that the State of North Carolina focus its proposed Pay for Success (PFS) initiative on supportive housing (SH) targeted to the highest-cost segments of the homeless and institutionalized populations in the state. Specifically, CSH has identified two vulnerable populations as the focus for the State of North Carolina PFS initiative 1) homeless, high utilizers of Medicaid and other public systems, and 2) residents of health care institutions who prefer to live in the community. Both groups represent tremendous cost to the state due to their use of institutional care, shelter, jail, crisis healthcare, and/or social services. Both are ideal candidates for showing dramatic improvements in housing and social outcomes after placement in supportive housing, as well as large net cost savings for the State.

CSH is a national non-profit organization that offers capital, expertise, information, and innovation that allow our partners to use supportive housing to achieve stability, strength, and success for the people in most need. We are a leader in the use of PFS to scale quality supportive housing and are uniquely positioned to serve as an intermediary for a PFS transaction focused on supportive housing for one or more vulnerable populations.

We would welcome the opportunity to partner with the State of North Carolina to develop a PFS transaction by leading the work to clearly define the target population and related cost benefit analysis, structure and estimate the costs of the proposed SH intervention, craft a proces to select the housing and service provider and evaluation partners, identify outcomes that will result in success payments and strategy for capturing savings as needed, develop a financial model, identify and secure investors, and other intermediary functions as needed to move the transaction quickly toward successful implementation.

BACKGROUND

What role would your organization have in a pay for success contract?* What experience does your organization have working with government entities? What experience does your organization have in implementing or evaluating initiatives?

CSH proposes to be the lead intermediary for a PFS initiative in North Carolina. CSH's mission is to advance solutions that use housing as a platform to deliver services, improve the lives of the most vulnerable people, and build healthy communities. CSH has 127 staff in 23 locations nationally, including eleven staff on the national Government Affairs and Innovations team which leads CSH's involvement in Pay for Success (PFS). CSH has unparalleled expertise in the issue of homelessness, supportive housing (SH) models, financing streams, the intersection of housing and health care, service delivery best practices, and deep experience in client targeting. In each community, CSH serves as a catalyst, bringing together people, skills and resources, and as a thought leader, designing new programs and policies, creating demonstration models, and educating the public, private, and nonprofit sectors to collaboratively tackle and invest in innovative solutions to some of our society's most intractable issues.

CSH brings to bear experience particular to North Carolina as well. One example is that based on our national expertise and our Frequent User Systems Engagement, or FUSE, Blueprint model, CSH was engaged as a consultant by Mecklenburg County to provide technical assistance in an interagency effort providing 45 new units of supportive housing to individuals that cycle between the criminal justice and homeless shelter systems. This initiative recently received an Achievement Award from the National Association of Counties which recognizes innovative county government programs.

Besides these highlights, there are several aspects of our experience and capacity that **uniquely position CSH to serve as the lead intermediary for a PFS initiative in North Carolina focused on supportive housing**, as follows:

- Pay for Success expertise. In the past four years, CSH has been a leader in the use of Pay for Success as an innovative tool to scale the evidence-based intervention of supportive housing to address a range of community needs, including several of the policy areas that North Carolina is looking to address. These include health care, criminal justice and housing. CSH is currently engaged in work in more than eight jurisdictions and states in a variety of capacities to advance this model. As detailed below, we are uniquely positioned to play a number of roles related to such PFS transactions.
    - Intermediary: CSH is the named intermediary for a Social Impact Bond effort under development with the State of Minnesota focusing on transitioning individuals from institutional settings to integrated community-based supportive housing in line with the state's goals under *Olmstead*. CSH is also the named intermediary in partnership with Enterprise Community Partners for a PFS transaction under development in the City of Denver. In this role, CSH and its partners have conducted successful RFQ processes for service provider and evaluator partners. This transaction is expected to close in December of 2015. CSH is a manager of the intermediary structure for the PFS transaction in the Commonwealth of Massachusetts focused on homeless, frequent users of health services, chronic homelessness and provided extensive support in crafting this program to the lead intermediary organization, the Massachusetts Housing and Shelter Alliance (MHSA). This transaction is in the implementation phase and individuals are currently being housed.
    - Technical Assistance Provider: CSH is one of eight grantees of the inaugural competition from the Corporation for National and Community Service Social Innovation Fund (CNCS SIF) focused on Pay for Success. This is CSH's second award from CNCS SIF, with the first focused on the use of supportive housing integrated with care management, and primary and behavioral health to improve health outcomes while reducing public costs among individuals with complex health needs. Through the CNCS SIF PFS award, CSH is currently providing in depth technical assistance to six states and localities to determine the feasibility of a PFS effort focused on supportive housing for vulnerable populations including the states of New York, Washington and New Mexico. We anticipate providing technical assistance to a total of twelve states or localities. Outside of the CNCS SIF PFS award, we are also providing technical assistance to Inglis House in Pennsylvania in crafting a PFS transaction focused on transitioning individuals out of institutional settings to the community. In Los Angeles, CSH has led local philanthropy and public agencies in discussions around scaling, Just in Reach (JIR), our local reentry supportive housing pilot, using a performance-based contracting structure. CSH has cultivated strong buy-in on the part of the County and Sheriff, a lead partner for JIR. The CEO of Los Angeles County recently recommended that the County move forward with this model for a potential PFS transaction.
    - Investor: In addition to the support that CSH provided to MHSA related to the Massachusetts PFS transaction, we are also an investor in that transaction based on our high degree of confidence in that specific transaction as well as the strength of the PFS model to scale supportive housing. We are also an investor in the recently closed Santa Clara County PFS transaction focused on persons experiencing chronic homelessness who are also high utilizers of health care resources. In that role, CSH conducted due diligence related to the overall transaction with a particular focus on the proposed intervention of supportive housing and the service provider/intermediary.
- Raise private sector capital. As a Community Development Financial Institution (CDFI), CSH has an excellent record of raising public and private sector resources to invest in the supportive housing industry nationally. As a CDFI, CSH currently has on-hand $98MM raised from below-market rate loans, secured from a mix of private bank, corporation, government, faith-based, and foundation investors. In 2014, CSH secured over $13MM in new signed contracts and was awarded over $20MM in new grants, more than double our fundraising targets. Annually CSH manages relationships, reporting and overall stewardship with more than 150 funding sources around the country. We have strong relationships with several national foundations, including the Robert Wood Johnson, Conrad N. Hilton, Oak, and Open Society Foundations. Robert Wood Johnson Foundation alone has invested $40MM in grants and $10MM in loans to CSH to develop multi-site demonstration initiatives and to broadly advance supportive housing.

- Assemble and manage teams of service providers. CSH has deep experience in assembling and coordinating teams of service providers to achieve set goals and targets for service delivery and outcome achievement. Nationally, we have made 270 grants and 315 loans to the supportive housing industry in the last five years alone. We target our grant resources to nonprofits with solid track records of developing and operating SH programs, with many grantees having performed well under third-party evaluations and under past CSH grants and loans. For each grant and loan made, we assessed the viability of the particular supportive housing project as well as the capacity of the potential grantee/borrower organization overall. A recent example of CSH's ability to manage a complicated project with multiple organizations is our first SIF grant from CNCS focused on addressing the growing U.S. problem of rising health care costs by demonstrating a supportive housing solution that pulls people with the most complex issues out of the revolving door of costly crisis health services. Following a structured RFP process, CSH has made $4.2MM in sub-grant commitments to four groups in order to implement these innovative models.

- Assist with the development of appropriate programming, utilizing evidence-based models. CSH has extensively researched best practices in supportive housing development and operations. CSH has translated that learning into 16 toolkits, including over 400 distinct tools and model documents, focused on supportive housing best practices. We also deploy and train property owners and service providers on Harm Reduction housing, an evidenced-based model that allows people to change behaviors with substance use and clinical services while remaining permanently housed. CSH has deep experience in designing supportive housing initiatives that target high-cost/need homeless individuals. For instance, in 2003, CSH matched NYC Departments of Corrections (DOC) and Homeless Services (DHS) data to understand the size of the overlap between the shelter and jail populations. The data analysis revealed a small but costly cohort of people who cycled between jail, shelter, and other systems for a collective cost of $11.8MM annually. In response, CSH piloted FUSE in New York City in 2005. The model features data matching across government agencies to identify and target frequent users, in-reach into jails and shelters, and housing linked to intensive services. FUSE yielded strong results: housing stability and dramatic drops in shelter usage and jail stays. Based on the success of the NYC pilot, CSH has or is actively engaged in replicating FUSE in 11 additional sites (ranging from large urban areas such as Chicago and Denver, to lower density areas such as Fort Lauderdale and Mecklenburg County, NC), enabling communities to systematically target the highest-need/cost users of crisis systems for supportive housing.

  In North Carolina, CSH has been working with Mecklenburg County (Charlotte) as a contracted technical assistance provider with the County Department of Social Services for the last three years on a variety of projects, including 1) Design, capacity building and implementation support for a FUSE program targeted to high utilizers of jail, shelter, and health services (completed) and 2) Design of a supportive housing initiative targeted to families involved with the child welfare system including the facilitation of a peer-to-peer exchange to Florida to visit a national Administration for Children Youth & Families (ACYF) initiative pilot site (ongoing).

  More broadly, CSH has extensive expertise in designing RFP processes to identify high capacity service provider and evaluation partners for the PFS transaction. CSH is the leader for supportive housing and created the Dimensions of Quality for Supportive Housing (www.csh.org/quality). CSH has used this platform to assess and select organizations for investment and as needed to design and implement technical assistance and capacity building efforts. This expertise positions us to work with North Carolina to design and execute successful procurement processes for service providers and evaluators as needed, and to ensure that the intervention and evaluation subsequently designed are consistent with high quality supportive housing and the overall goals of the project.

- Monitor and track outcome measures. CSH is an outcome-driven organization. We set ambitious, yet achievable goals for all of our initiatives and invest in tracking the impact of our work on the supportive housing industry. CSH has a long and successful track record of designing and implementing complex, multi-site demonstration initiatives that include granting, managing to outcomes, and rigorous evaluation. We tie all financial support to very clear expectations for performance and closely monitor our grantees and loan borrowers. We couple this monitoring with training and intensive 1:1 TA to grantees and borrowers. CSH has sponsored, designed, and

managed numerous independent evaluations to test program efficacy on client and systems level outcomes, including varying methodologies. As well, our work has yielded impressive client and system level outcomes. For instance, John Jay College tracked NYC FUSE participants and a group of similar non-participants, and documented positive outcomes after a year: 91% of tenants remained stably housed; 92% experienced a drop in shelter stays; and 53% recorded a decline in jail recidivism. For the Frequent Users of Health Services Initiative (FUHSI), a $10 million pilot, CSH tested models to serve frequent users of emergency rooms and acute care in six California counties. The Lewin Group's evaluation of FUHSI showed that homeless clients experienced a 61% decline in ER visits and a 62% drop in inpatient hospital stays, and that the subset placed in SH experienced even stronger outcomes than those only offered health services. Both evaluations also examined costs savings and **showed net reductions in costs to public systems**.

- Collect and share data with Government, grantees and independent evaluator. CSH has a strong track record of partnering with public agencies to access data for client identification and evaluation purposes. For instance, through FUHSI, CSH facilitated the development of a systematic, long-term data collection strategy with hospitals and other partners. The program tracked crisis service use/entry, support service utilization, and costs. For our FUSE efforts in 11 jurisdictions nationally, CSH has brokered data-sharing agreements between multiple public systems in order to identify frequent users, target them for SH intervention, and evaluate the impact. For instance, for New York City FUSE, CSH brokered a data-sharing agreement and developed an MOU between the homeless system and the Jail to identify frequent users of both systems for jail in-reach and program enrollment. These agreements also allowed the evaluators to access administrative data from both agencies on the pilot's participants and the control group in order to monitor the pilot's impact on subsequent shelter use and jail recidivism as well as usage pre and post pilot for the control group. As well, many of the CSH-sponsored evaluations have involved Institutional Review Board (IRB) approval for the treatment of human subjects. CSH has advised the involved public agencies and evaluators to secure IRB approvals for numerous projects. Most recently, for the PFS transaction in Denver, CSH led the RFQ process to select the Urban Institute as the lead evaluator and is actively overseeing the development of the evaluation plan for an expected RCT model evaluation.

- Overall, CSH is both a good partner and an excellent steward of resources as demonstrated by our exceptional ratings by such entities as Charity Navigator, and CARS, a CDFI specific rating entity, where CSH has a AAA+2 rating, representing our strong impact and our financial strength. CSH has also been part of the S+I 100, an index of top nonprofits creating social impact. In 2013, CSH was selected as a winner of the New York Community Trust-New York Magazine Nonprofit Excellence Awards, a highly-competitive awards program that recognizes and encourages outstanding management practices among New York's nonprofit community.

What potential partners have you identified to fill other roles?*

CSH is a highly collaborative organization with a long history of successful partnerships across all of our areas of expertise including Pay for Success. Based on the intervention selected by the state and target population of greatest interest, CSH would create a project team designed to best meet the goals of the project. As an example of the kind of team that CSH would create in North Carolina, CSH currently works with the following three organizations through our CNCS SIF PFS grant:

- Center for Health Care Strategies The Center for Health Care Strategies (CHCS), founded in 1995, is a nonprofit health policy resource center dedicated to advancing health care access, quality, and cost-effectiveness in publicly financed care. CHCS achieves its mission by working directly with state and federal agencies, health plans, providers, and consumer groups to develop innovative and cost-effective programs, particularly for individuals with complex and high-cost health care needs. CHCS is collaborating with CSH to deliver technical assistance under this grant particularly in the area of Medicaid and other public financing sources as it relates to services provided to vulnerable populations and the cost of those services.
- Third Sector Capital Partners Third Sector Capital Partners, Inc. is a 501(c)(3) nonprofit that leads governments, high-performing nonprofits, and private funders in building collaborative, evidence-based initiatives that address society's most persistent challenges. As experts in innovative public-private financing strategies, Third Sector is

an architect and builder of the nation's most promising Pay for Success projects including the Commonwealth of Massachusetts and Cuyahoga County, Ohio. Third Sector is a grantee of the Corporation for National and Community Service's Social Innovation Fund.

- Harvard Kennedy School Social Impact Bond Technical Assistance Lab (HKS SIB Lab)CSH is working with the HKS SIB Lab, another SIF PFS grantee, to develop a cohort-based model targeted to a group of states working to provide a community-based housing alternative to institutionalization for individuals with disabilities in response to the federal *Olmstead* mandate. Through this cohort model, awardees are receiving government-focused expertise on project development, evaluation design, and procurement from the HKS SIB Lab and issue-specific expertise from CSH and its partners, including expertise in the areas of Medicaid funding of institutional and community-based services and the creation and operation of high quality supportive housing that meets the needs of the identified target population.

Other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

CSH is currently a contracted technical assistance provider with the Mecklenburg County Department of Social Services. At this time, we do not anticipate this contract creating a conflict of interest and do not foresee any other potential conflicts based on our current work and portfolio.

WHAT OUTCOMES SHOULD THE STATE PURSUE?
What evidence exists for a baseline comparison? What metrics should the state use?

Supportive housing is a cost-effective solution that results in positives outcomes for multiple target populations and pairs well with PFS, given the high cost of homelessness (e.g., use of ERs, detox, hospitalization, shelter) and institutionalization to public systems, and the savings resulting when vulnerable people are stabilized in housing and provided services to address the root causes of their homelessness and/or barriers to independent living.

SH is a combination of affordable housing and supportive services designed to help vulnerable individuals and families use stable housing as a platform for health, recovery and personal growth. SH can take many forms, including an apartment, a duplex or a single family home. Tenants in SH have a lease, just like any other tenant, with all the rights and responsibilities of leaseholders. The services available in SH are flexible, voluntary and tenant-centered. Depending on the needs of the target population, services can include case management, mental health services, primary health services, substance abuse treatment, employment services and parenting skills.

In dozens of studies, SH has been repeatedly proven to be an effective intervention that improves housing stability, reduces the use of expensive crisis care (e.g., ERs, detox, hospitalization, nursing homes), and improves outcomes even for the most vulnerable individuals with complex needs. The cost savings resulting from SH are particularly significant when looking at two target groups: high utilizers of Medicaid and crisis services and residents of health care institutions who prefer to live in the community. These groups are described in further detail below. Since PFS deals are built on the premise that the cost of the intervention, in this case SH, will be significantly less than the cost of the status quo for a given targeted group, these two populations provide significant opportunities for successful PFS efforts.

Homeless, High Utilizers of Medicaid and Crisis Services.
First documented by Hopper and colleagues in 1997, a growing body of research has identified a group of people who are caught in a revolving door of homelessness and high use of public services, such as homeless shelters and emergency rooms. These "super users" of public services typically have complex health conditions and consume a disproportionate share of Medicaid costs (e.g., the 5% of Medicaid beneficiaries who use 50% of costs). The 2014 North Carolina State Point-In-Time estimate of persons experiencing homelessness on a given night is 11,440 individuals, with 12% or 1,372 experiencing chronic homelessness. While not all chronically homeless individuals are

frequent users, many cycle between shelter, ERs, detox, jail, and the street, presenting a costly and sizable population for a PFS transaction focused on supportive housing. Through administrative data integration and analysis, the highest utilizers can be identified and targeted for supportive housing. There is ample evidence this strategy dramatically reduces costs to public crisis systems.

- Preliminary data from the Mecklenburg FUSE project indicates that MeckFUSE has been able to reduce cost burden to health care systems: the average annual bill pre-MeckFUSE was $4,358 (median: $1,600) compared to the average bill after entry into MeckFUSE at $1,261 (median: $819). The average number of hospital visits for MeckFUSE participants fell from 10 per year to two[i].
- In Los Angeles county 10% of the homeless population accounts for 72% of homeless healthcare costs. When comparing the year before and after entering supportive housing among this group:
    - Emergency department visits decreased 71% from 9.8 to 2.8 visits per person per year on average:
    - Inpatient readmissions dropped 85% from 8.5 to 1.2 admits;
    - Inpatient days decreased 81% from 28.6 to 5.5 days; and,
    - On average cost avoidance per person per year was $59,416 with a total cost decrease of 81%.[ii]
- In Massachusetts, a statewide pilot of chronically homeless individuals showed a reduction in mean Medicaid costs from $26,124 per person annually before entering supportive housing to $8,499 in the year after entering supportive housing.[iii]
- Among chronically homeless persons with physical and/or psychiatric conditions in Seattle overall Medicaid charges were reduced by 41% in the year after entering supportive housing.[iv]
- The independent evaluation of the Frequent Users of Health Services Initiative (FUHSI), a CSH-led effort in California, found that participants averaged $58,000 in hospital charges annually prior to program enrollment.
- A study of 100 chronically homeless individuals in Denver found that supportive housing led to a 76% reduction in the number of days spent in jail. Supportive housing resulted in total cost offsets of $31,545 per person over a two-year period.[v]

Homelessness is the root cause of excessive use of high-cost crisis care services for a large proportion of these high utilizers. An initiative targeting homeless frequent users of services provided by the State of North Carolina could be created using the PFS model. The core components of the intervention include: use of data and/or a triage tool to identify the highest-cost users; intensive outreach and engagement of homeless, frequent users; and strong partnerships between SH providers and community health clinics to comprehensively serve the health, housing, and social service needs of clients in a coordinated fashion. CSH would work with the State and local partners to tailor this basic model to the needs and local circumstances in North Carolina.

This population can be identified by matching data across the shelter and health systems to identify the overlapping population and narrow in on the most frequent flyers. CSH has facilitated such data matches in jurisdictions nationally. In two years alone, CSH led data matches between the homeless and health systems in six locations (Los Angeles, CA; Connecticut; San Francisco, CA; Ann Arbor, MI; Detroit, MI; Maricopa County, AZ). This work involved CSH leading the partners in developing data-sharing agreements between the public agencies, advising on how to conduct the match, and examining the data to assess the scope and size of the shared populations. We then provided intensive, onsite TA to help local partners to develop eligibility criteria (based on the results of the data match), design a SH pilot, identify funding resources, develop protocols for outreach and engagement, and create an evaluation plan. For instance, following this work, CSH is now working with SH providers, community health clinics, and local hospitals to identify and place high-utilizers in supportive housing in Los Angeles.

In terms of measuring the program's impact, the State would be able to draw on these same data sources to assess the extent to which the intervention results in reduced costs for the homeless and health systems. As well, this data would allow the State to understand how the intervention changes patterns of service use among the target population. The hypothesis to be tested is whether the intervention results in greater utilization of primary and preventive care, and, as a result, whether participants curb their use of emergency rooms, shelter, inpatient

hospitalizations, detox, jail, and ambulance services. The State could work with CSH and an independent evaluator to collect information on housing status, and primary, preventive, and crisis service, detox, and jail usage among participants in the year(s) prior to supportive housing placement, and compare these rates and costs to the populations' use of each of these services in the year(s) following supportive housing placement. We would also advise the State to include a control or comparison group as part of this assessment. This approach would best position the State to definitively determine the counterfactual for the intervention and isolate the actual impact of the intervention for participating individuals.

Residents of Health Care Institutions who Prefer to Live in the Community.

The central tenet in the Supreme Court's *Olmstead* decision is that people with disabilities have the right to have an alternative to an institutional setting. SH has emerged as the leading solution to allow these individuals to live independently. CSH believes that PFS has the potential to support the State of North Carolina as it works to meet the goal of providing community-based supported housing to 3,000 individuals by 2020. In general, community-based care is a much cheaper alternative for the elderly and disabled as compared to institutional care. Community-based options cost about one-third of the average cost of institutional care [vi].

According to the National Council on Disability the average annual expenditure per individual in state institutions in North Carolina in FY2009 was $175,565, compared to an average of $45,697 for Medicaid-funded home and community based services. Long-term cost savings can be realized from moving people out of institutions and into the community. Even a gradual shift away from spending on institutional settings like nursing homes to services delivered in the community can significantly reduce costs at the state level. A shift of just 2% per year can reduce spending by about 15% over ten years.[vii] An Ohio study (Health Management Associates, 2012) found that a National Church Residences SH model for low-income seniors saved the state of Ohio $26,674 per person annually in Medicaid costs over living in a nursing facility, while also allowing seniors to live in communities more independently. The cost of the nursing home bed averaged $54,545 per patient per year, while the average cost for individuals in SH averaged $26,674, representing a 49% savings over the cost of the nursing home bed. Finally, a HUD study estimated the cost savings of a 340-day stay in SH ranged from $25,000 to $36,000. In 2004, a stay in a nursing home funded by Medicaid cost about $49,000 on average, while Section 202 supportive housing (a less intensive services model) is estimated to cost only about $13,000[viii].

In addition to being cost-effective and consistent with consumer preference, research also demonstrates that community-based care promotes recovery and improves quality of life.

- A longitudinal study conducted in Ontario, Canada followed individuals who received community-based services after their discharge from a psychiatric hospital and demonstrated significant improvements in living situation, social skills and recreation. Eighty-six percent of the participants reported that they had more independence and more privacy and overall quality of life than living in a hospital.[ix]
- Brunt and colleagues studied the quality of life of persons with severe mental illness across housing settings and reported that respondents in supportive community settings rated their quality of life significantly better in four life domains including work, leisure activities, living satiation and social relations than did persons living in institutional settings.[x]
- Research also shows housing and recovery to be closely linked, demonstrating an association between community-based housing and enhanced effectiveness of treatment and rehabilitation services as well as maintenance of treatment gains.[xi] Individuals who reported positive neighbor and landlord relations were also more likely to report higher perceptions of their own recovery from mental illness.[xii]

This population can be identified by examining North Carolina State Plan for Medical Assistance data and identifying the most costly utilizers among residents in adult care homes or State psychiatric hospitals. Once this pool of individuals is developed, CSH would recommend that the State develop or modify an existing assessment tool to identify the subset of these individuals who would be appropriate for supportive housing. CSH has deep experience in developing and implementing such tools in partnership with state agencies. The hypothesis to be tested for this

population is that supportive housing results in: improved health outcomes, greater consumer choice and satisfaction (consistent with *Olmstead*), and reduced costs to Medicaid and Medicare. To test this hypothesis, the State and its selected evaluator would need to collect Medicaid, and Medicare data on participants in the year(s) prior to the intervention and in the year(s) following SH placement, examining any changes in their use of costly Medicaid and Medicare services, such as emergency room visits, hospitalizations, detox, and other costly, avoidable services. CSH recommends that the state and the evaluator also track these same outcomes and data points for a control or comparison group in order to provide a true counterfactual for the Pay for Success pilot. To gauge impact on health outcomes, CSH would work with the State and the evaluator to identify and agree on a set of key indicators of health status that would also be tracked for the treatment and control/comparison groups. Finally, CSH would recommend the use of a survey for both groups to assess consumer satisfaction in supportive housing versus that experienced in adult care homes, State psychiatric hospitals, or other institutional settings.

HOW SHOULD THE STATE MEASURE AND PAY FOR SUCCESS (cashable savings, wellbeing benefits, and willingness to pay)?

As outlined in the previous section, CSH recommends that the state measure success using a mixture of cost avoidance, wellbeing benefits and willingness to pay. It may also be possible to realize cashable savings as in instances where a reduction in usage of facilities such as a State psychiatric hospital, jail or shelter allows for all or part of a facility closure. The state could also choose to realize savings achieved through Medicaid as cashable, but may instead choose to serve additional persons in need of services and/or redeploy such funds in line with State goals. The state should also place value on the increased wellbeing of persons served through a PFS transaction particularly as it relates to providing housing to persons experiencing homelessness and allowing persons with disabilities to live in the most integrated setting possible in the community. The State may also choose to value the ability of a proposed PFS transaction to support its ability to comply with its court monitored *Olmstead* consent decree. Overall, CSH recognizes that there are significant fixed/sunk costs that relate to institutional care settings, including nursing homes, mental health insitutions, jails, and prisons. These are likely to remain relatively constant and not providce cashable savings, but can still be valuable in creating greater efficacy in provision of care. Additionally, in some instances there are marginal costs that can be realized, including the provision of correctional health care, inclusing psychiatry, medications, and substance use counseling. CSH believes the State should look to measure and place values on that include marginal costs (that may be cashable) and impacts on other costs that may create offsets and/or greater programmatic efficiency.

What time period should the state set for intervention and evaluation? At what interim dates should the state evaluate outcomes?

CSH recommends an intervention and evaluation timeframe of approximately 5 years. The rate of transition to the community will be in part dependent on provider capacity as well as housing created throug the PFS transaction. The 5 year time window will allow sufficient time for all enrolled participants to transition and for the identified outcomes to be fully realized and observed. Outcomes such as transition to the community and housing stability can be measure on a more frequent basis, such as quarterly, while other metrics such as reductions in jail days and Medicaid savings may required a longer term evaluation period such as two years.

What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome? What investment would be required by investors? What payments would be expected from the state? (rough order of magnitude) What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

Homeless, High Utilizers of Medicaid and Crisis Services. Should the State elect to focus a PFS intervention on homeless high utilizers of Medicaid services, there would be clear, identifiable budgetary savings. This population also offers the State an ideal opportunity to partner with local governments to achieve savings and benefits at multiple

levels of government. In order to fully capture their costs pre- and post- intervention, the State would need to examine their service usage and costs to jail, shelter, and Medicaid. We expect the cost to the jail and shelter systems to drop significantly post-intervention, with these costs becoming negligible post-intervention. The cost to Medicaid will drop to $40,000 annually post-SH intervention, as these individuals will continue to require primary, preventive, and behavioral healthcare. Yet, we expect healthcare costs to drop overall as these individuals will cut their usage of acute and crisis care. We estimate the annual cost of the supportive housing intervention, tailored to this population's unique needs, to be $25,000 (including rent), for a total cost of $65,000 annually (SH + Medicaid). If we assume an annual amount for the selected high utilizers of $80,000, the annual cost savings would be $6MM annually for 400 pilot participants.

Residents of Health Care Institutions who Prefer to Live in the Community. The State could focus on a number of target populations whose members are currently in institutional settings and would like to transition to the community including persons in nursing homes, adult day care homes or State psychiatric hospitals. CSH would work closely with the State to understand status quo costs for each identified target population, but it is likely that the greatest savings could be realized through a focus on those persons among the State psychiatric hospital population who could live successfully in supportive housing. As an example, it appears that the annual cost of serving a person in a State Psychiatric hospital under the status quo is roughly $332,150 (based on the lowest average cost of a bed day cited at $910)[xiii]. We expect the cost to Medicaid and Medicare to drop to $45,000 annually post-SH intervention, as these individuals will continue to require primary, preventive, and behavioral healthcare. Yet, we expect healthcare costs to drop overall as these individuals will cut their usage of acute and crisis care. We estimate the annual cost of the supportive housing intervention, tailored to this population's unique needs, to be $25,000 (including rent), for a total cost of $70,000 annually (SH + Medicaid/Medicare). Thus, in this scenario, the annual cost savings to the State for even a small pilot of 100 individuals can be estimated at $26MM annually for 100 individuals.

A. IF A NEW PROGRAM, HOW WOULD IT EXPAND THROUGH SCALE OR REPLICATION? What continuing role would your organization have in continuing the program? What role would the state have in continuing the program? What would the ongoing costs of the program be?

Although the specific initiative contemplated as part of a PFS transaction focused on supportive housing for one of the two target populations is new, quality supportive housing exists in North Carolina and is provided by organizations such as the Urban Ministry Center in Mecklenburg County. CSH anticipates that the PFS transaction would identify and leverage existing providers of housing and supportive services to expand their existing work to provide supportive housing consistent with the housing first model and team-based case management approaches such as ACT. Supportive housing has been implemented successfully in urban, suburban, and rural settings statewide in North Carolina and nationally. The core elements of supportive housing are affordable housing linked to voluntary, client-driven support services. These core elements can be delivered in a variety of settings that are appropriate to the local surroundings and the specific target population.

If selected as the intermediary for the PFS transaction, CSH would have an ongoing role in working with the housing and service provider partners to ensure that the identified outcomes are achieved through the term of the transaction. CSH has a long history of capacity building and would ensure that the housing and service providers are positioned to successfully continue the intervention well before the five year term of the transaction ends. If the PFS initiative is successful, the State would have the opportunity to permanently transform its system by continuing to pay for success and invest any realized or future anticipated savings in continuing or expanding the model. CSH anticipates that ongoing costs would be to Medicaid related to service provision and possibly to fund rent assistance depending on to what extent other housing related resources have been identified in the State.

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CORRECT CARE RECOVERY SOLUTIONS

North Carolina Office of State Budget and Management

Pay for Success

August 11, 2015
RFI No. 49-GOVPFS2015

Response

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Original

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Executive Summary

North Carolina's mental health system has struggled for years to provide adequate care for the increasing number of forensic commitments. This has resulted in long wait lists due to the lack of bed availability and created a backlog in emergency departments around the State. The closure of Dorothea Dix Hospital has further added to this problem with an increased number of mentally ill patients in the emergency department awaiting admission, increasing the risk of harm to other patients and hospital personnel.

Correct Care Solutions (CCS) and its subsidiary Correct Care, LLC understand the State is interested in identifying innovative solutions for several potential policy areas for a Pay for Success contract. **Correct Care proposes the State could implement a jail-based competency restoration program that would reduce overall costs to the State, improve patients' access to care, and provide treatment closer to community supports.**

Proven Experience: Established in 1997, Correct Care has **more than 17 years of experience operating psychiatric facilities in multiple states**, including experience with civil, forensic, sex offender, youth, adult, and geriatric populations. We specialize in treating high-risk and vulnerable populations, with additional experience delivering behavioral healthcare and other secure treatment services to government agencies. Competency restoration and related forensic treatment is our company's core competency, and we continue to grow by building on this strength. Correct Care provides these services at each of the following locations:

- South Florida State Hospital (1998-present)
- Columbia Regional Care Center (2001-present)
- South Florida Evaluation and Treatment Center (2005-present)
- Treasure Coast Forensic Treatment Facility (2007-present)
- Montgomery County Mental Health Treatment Facility (2011-present)
- Colorado RISE Program (2013-present)

Unmatched Expertise: Correct Care has worked with patients requiring all levels of forensic treatment, including individuals found incompetent to proceed to trial, individuals found to be non-restorable, and individuals found not guilty by reason of insanity. Most importantly, we have experience with individuals whose restoration does not require a hospital environment – **we have restored over 950 patients in less than 60 days during the last three years.** We have substantial experience identifying malingering and providing treatment that maximizes the likelihood of restoration in the minimum amount of time. Correct Care achieves its outcomes by hiring and retaining highly qualified professionals, conducting validated assessments to identify individual needs, providing evidence-based programming to target these needs, and using performance indicators to track outcomes.

Leading Innovation: Correct Care became the nation's leading forensic provider by approaching challenges differently than other providers. We have helped state agencies in Florida, Colorado, South Carolina, and Texas to reduce waiting lists, increase overall forensic capacity, and mitigate lawsuits by looking at persistent problems in new ways. Correct Care has responded to this need by:

- Activating Treasure Coast Forensic Treatment Center within 40 days of contract execution, recruiting 240 new staff, and outfitting the entire operation
- Activating South Florida Evaluation and Treatment Center Annex within 67 days of contract execution, recruiting 175 new staff, and outfitting the entire operation
- Activating Montgomery County Mental Health Treatment Facility within 90 days of contract execution, recruiting over 175 new staff members, and outfitting the entire operation

Committed Partnership: Correct Care partners with community providers, universities, and state agencies to deliver forensic mental health care in jail and hospital environments. Each of our facilities is integrated into the larger network of mental health providers and community stakeholders through academic partnerships, volunteer activities, hosting advocacy groups, fundraisers, and other activities. Our recovery-oriented treatment philosophy emphasizes linkages with other stakeholders to ensure that each individual receives the assistance he needs post-release. This ensures the fullest understanding of the continuum of care required for each individual's recovery.

At the Colorado RISE program, Correct Care provides jail-based competency restoration services for the Colorado Department of Human Services, Office of Behavioral Health in the Arapahoe County Detention Facility. Correct Care also partners with the University of Colorado at Denver Forensic Fellowship Program for placement of psychiatric patients, part of our ongoing commitment to be a part of the communities we serve. This program began receiving patients in November 2013 and serves ten counties in and around the Denver Metro area.

Established North Carolina Presence: CCS has **operated in North Carolina since 2004 providing healthcare services to more than 6,200 adult and juvenile patients at 11 locations** in Durham, Forsyth, Guilford, Mecklenburg, and New Hanover counties. As a result of these operations, Correct Care has developed a strong familiarity with the current patient population and has an established healthcare recruiting network. Correct Care has also established strong relationships with the Sheriffs and other healthcare professionals keeping us well informed of the issues they face in these areas.

With over 17 years of forensic experience, Correct Care restores competency to more individuals than any other private provider. Our team of experts has successfully implemented forensic programs in multiple states and has helped state agencies to mitigate problems by developing innovative solutions. We look forward to the potential opportunity to assist the State in addressing the challenges it faces now and in the future.

Background

What role would your organization have in a pay for success contract?

Correct Care would serve as the provider of competency restoration services should the State decide to implement a jail-based competency restoration program. A sample of competency restoration services that would be provided by a private vendor are listed below.

- Competency restoration
- Assessment and evaluations
- Individualized treatment planning
- Psychiatric evaluation and treatment
- Psychotropic medication monitoring
- Psychiatric consultation
- Psychological services
- Peer support
- Discharge and reentry planning
- University Fellowship Program

What potential partners have you identified to fill other roles?

One or more Sheriffs would be necessary to successfully implement a jail-based competency restoration program. For example, Correct Care's RISE Program has succeeded because of our strong partnership with the Arapahoe County Sheriff Office. For the RISE Program, the Sheriff provides Correct Care's participants with meals, hygiene items, medical sick call, basic dental and eye care, a nurse to assist with medication administration, mental health deputies specially trained in crisis/special intervention techniques, program area for participants, and meeting space for therapeutic treatment sessions.

Additionally, one or more universities could be potential partners to provide rotations for forensic psychiatric fellows, intern programs, and/or program evaluation. Correct Care has a long history of establishing relationships with local university and college clinical training programs. We have found that providing a training ground for fellows and interns ultimately leads to strong bonds between the programs we operate and the surrounding communities. Examples of these relationships include:

- ***Forensic Psychiatry Fellowship Programs*** – The Colorado RISE program currently partners with the University of Colorado at Denver Forensic Fellowship Program to provide rotations for psychiatric fellows.
- ***Medical Student Rotations***– South Florida Evaluation and Treatment Center serves as a site for medical student rotations for Florida International University's medical school.
- ***Psychology Internship Program*** – South Florida State Hospital partners with the American Psychological Association accredited psychology internship program, accepting three interns a year and participating in the match for these positions.
- ***Pharmacy Internship Program*** – South Florida State Hospital partners with Nova Southeastern University School of Pharmacy to provide interns the opportunity to work with a pharmacy instructor and supervisor on-site.

- ***Graduate Schools of Social Work*** – Several Florida universities use Correct Care programs as practicum locations as well as several professional schools of psychology.

These relationships provide an opportunity for a closer working relationship with the local academic and mental health provider communities, which fosters a direct tie to community mental health services.

What experience does your organization have in working with government entities?

Correct Care and CCS currently have over 300 contracts nationwide providing healthcare services on behalf of federal, state, and local governments. For more than 17 years, Correct Care has worked in partnership with governmental agencies operating psychiatric facilities in multiple states, including experience with civil, forensic, sex offender, youth, adult, and geriatric populations. The following provides a summary of Correct Care's current experience demonstrating our ability to provide competency restoration or similar mental health services to governmental agencies include:

- **South Florida State Hospital (1998 - present)**
  - 341-bed, TJC accredited civil/forensic hospital, operated in partnership with Florida Department of Children and Families

- **Columbia Regional Care Center (2001 - present)**
  354-bed psychiatric/healthcare facility with 178 TJC accredited beds, operated in partnership with South Carolina Department of Mental Health

- **South Florida Evaluation and Treatment Center (2005 - present)**
  - 238-bed, TJC accredited forensic hospital, operated in partnership with Florida Department of Children and Families

- **Treasure Coast Forensic Treatment Center (2007 - present)**
  - 224-bed, TJC accredited forensic treatment center, operated in partnership with Florida Department of Children and Families

- **Montgomery County Mental Health Treatment Facility (2011 – present)**
  - 100-bed, TJC accredited forensic hospital, operated in partnership with Montgomery County and Texas Department of State Health Services

- **Colorado RISE Program (2013 – present)**
  - 22-bed, NCCHC and ACA accredited jail-based competency restoration program, operated in partnership with Colorado Office of Behavioral Health and the Arapahoe County Sheriff Office

What experience does your organization have in implementing or evaluating initiatives?

Correct Care is recognized as one of the most innovative mental health treatment providers in the nation. We have forged strong relationships in Florida, Texas, South Carolina and Colorado by working with our client agencies to find ways to increase forensic capacity. This creativity, coupled with our proven, research-based treatment programs, allows Correct Care to respond to present agency

concerns as well as anticipate future needs. In each of our contract implementations, our clients faced unique challenges that Correct Care had to address in a decisive and timely manner. Our success in this area has given Correct Care the ability to identify, assess, and overcome obstacles to successful program implementation. Specific examples include:

Improving inpatient care through renewed public infrastructure. Correct Care's first public-private partnership began in 1998, when we were selected to manage and operate South Florida State Hospital (SFSH) for the Florida Department of Children and Families (DCF). Prior to Correct Care assuming operations, SFSH was an outdated 1950s state mental health hospital that had never achieved accreditation. Under Correct Care, SFSH achieved Joint Commission accreditation within 10 months. Correct Care also significantly reduced the average length of stay and the number of patients who return to the hospital for additional treatment after release.

Correct Care built a replacement facility that opened in 2001, the first new civil state psychiatric hospital built in Florida in over forty years. The 341-bed, state-of-the-art facility was designed as a residential community. The project encompasses approximately 37 acres with an administration building, several residential buildings, and a treatment mall. The cost to operate the new hospital plus the annual debt service for its construction was less than the state was spending to simply operate the old facility in 1998 – no capital dollars required. In summary, within a span of two years, we took one of the country's poorest performing state psychiatric hospitals and converted it to one of the best without any increase in the hospital operating budget. The contract between DCF and Correct Care has been renewed several times, and marked a pioneering, public-private partnership.

Optimizing underutilized public resources. Correct Care's unique problem-solving ability was exemplified in 2006 when our long-standing partner, the Florida Department of Children and Families (DCF), faced a critical shortage of forensic beds for failure to provide forensic beds within the mandated 15-day timeframe. Correct Care identified and renovated an abandoned juvenile justice facility into Treasure Coast Forensic Treatment Center in 2007 and implemented operations within 40 days of contract execution. Correct Care renovated, retrofitted, and rehabilitated the facility; recruited and trained 240 new staff; and outfitted the entire operation – all within 40 days of contract signing. As a result, the state's forensic waiting list dropped to zero within six months of TCFTC opening.

Adapting treatment model to maximize therapeutic milieu. The Colorado Office of Behavioral Health lacked sufficient forensic capacity due to the increased number of admissions for competency restoration at the state hospital. Correct Care developed the foundation for the RISE Program in 2013 by adapting the successful hospital-based treatment model to maximize the therapeutic milieu in the highly restrictive jail environment. This included the use of a peer support specialist and reentry specialist to promote patient recovery and continuity of care following restoration of competency and transfer back to referring jails or the community.

As a provider of mental health treatment exclusively to governmental partners, Correct Care provides all services with transparency and accountability. For example, as a result of our consistent and systematic approach, Correct Care has achieved and maintained patient outcomes that have effectively

raised the bar for Florida state hospitals with regard to length of stay for civil hospital residents, days to competency restoration for forensic residents, and limiting use of restraint and seclusion.

Correct Care's culture supports strong continuous quality improvement programs in each of its facilities. Our team continuously develops and implements performance improvement programs to systematically plan, design, measure, assess and improve performance of critical focus areas, improve healthcare outcomes, and reduce and prevent medical/health care errors in all facilities. Our initiatives are based on:

- ***Focus on the customer:*** Meeting client needs and complying with contract requirements
- ***Team work:*** Permeates all facets of the operation, from multidisciplinary treatment teams to cross-functional performance improvement teams
- ***Scientific approach:*** Data-driven quality improvement program that uses facility and system-wide metrics to monitor and improve service delivery

Contract performance measures and regular audits by our client agencies are part of each of our contracts. The effectiveness of each of Correct Care's programs is consistently validated by independent sources, such as Texas State Legislative Budget Board and The Florida Legislature's Office of Program Policy Analysis and Government Accountability. Specific examples include:

- ***Texas Department of State Health Services:*** A 2012 study by the Legislative Budget Board found that Correct Care's Montgomery County Mental Health Treatment Facility compared to state-operated hospitals resulted in:
  - 31% shorter length of stay
  - 47% fewer days on waiting list
  - 3% higher competency restoration
  - 44% reduction in cost[1]
- ***Florida Department of Children and Families:*** A 2010 report by the Office of Program Policy Analysis and Government Accountability found that Correct Care's South Florida State Hospital was 6-14% less costly per bed, including debt service, than two state-operated hospitals. In addition, the state-operated hospitals had 100-185% longer length of stays than Correct Care's South Florida State Hospital.[2]

Other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

Correct Care does not believe any conflicts of interest would arise should the State select our company through a future procurement opportunity. Correct Care currently provides healthcare at 11 jail locations throughout five counties in North Carolina and has developed strong relationships with each of the

[1] All data for state mental health facilities: *Texas State Government Effectiveness and Efficiency Report: Selected Issues and Recommendations.* Legislative Budget Board Staff. January 2013. Data for MCMHTF calculated for same time period.

[2] All data from OPPAGA analysis of data from the Department of Children and Families: *Research Memorandum: Information on Florida's Civil Mental Health Hospitals.* The Florida Legislature. February 18, 2010.

Sheriffs. As a result, Correct Care is well aware of the impact of mentally ill inmates on the criminal justice system and is uniquely poised to implement a jail-based restoration program that receives buy-in form local jails.

Outcomes

What outcomes should the state pursue?

A jail-based competency restoration program will allow the State to deliver necessary mental health services to jail inmates more quickly, thereby improving access to care and reducing the strain on local jails, which are often inadequately equipped to deal with the increasing number of mentally ill inmates.

What evidence exists for a baseline comparison?

The State would be able to use the performance in restoring competency of existing state psychiatric hospitals as a baseline comparison. Current data shows that the FY2014 average length of stay in North Carolina State Psychiatric Hospitals was 119 days[3]. In comparison, Correct Care's Colorado RISE program's average length of stay was 49 days.

Colorado, much like North Carolina, was facing a strained forensic system. Correct Care, in partnership with the Colorado Department of Human Services, Office of Behavioral Health (OBH) and the Arapahoe County Sheriff Office, began receiving clients for the jail based competency restoration program in the Arapahoe County Detention Facility in 2013. Since that time, RISE has provided competency restoration programming to detainees from 10 counties in and around the Denver Metro area for the sole purpose of preparing them to stand trial. **Correct Care has successfully discharged 84% of patients restored to competency in less than 60 days since establishing the program in 2013 and does so at a significant savings compared to competency restoration services provided by the state.**

What investment would be required by investors?

Investors would cover the cost of program evaluation, such as a randomized control trial, including data gathering from the government program being evaluated. The evaluation could compare the government program against a status quo with no intervention (like the restoration in state hospitals). If the government reduces appropriations to the state hospitals for these services to fund jail-based, the investors would receive a portion of the discounted future cash flows that would have paid for the program.

What payments would be expected from the State?

Assuming a 20-bed jail-based restoration program, the expected payments from the State would be approximately $2 million.

[3] North Carolina Mental Health National Outcome Measures (NOMS): SAMHSA Uniform Reporting System, Length of Stays in State Psychiatric Hospitals, Other Psychiatric Inpatient and Residential Treatment Centers for Children Settings, 2014.

What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

The State could achieve savings and benefits at multiple levels, including the following:

- Restoring competency using the jail formulary reduces the likelihood that individuals will cycle back and forth between the state hospitals and jails, which is an ineffective use of both local and state resources
- Providing these services in a jail-based setting reducing the risk associated with mentally ill inmates waiting in jail for placement in a state hospital (i.e. lawsuits)
- Dedicating a unit to competency restoration creates a revenue source for the Sheriff while reducing costs to the State
- Restoring competency using the jail formulary which is typically cheaper than in state hospitals

Performance Measures

How should the state measure and pay for success (cashable savings, wellbeing benefits, and willingness to pay)?

Correct Care would suggest the State pay for success based on wellbeing benefits, which would ensure the competency restoration program is accomplishing better program outcomes compared to current services being provided. In doing so, the State is guaranteed to only pay for demonstrated effectiveness based on verifiable outcomes.

What metrics should the state use?

Monitoring service delivery through key performance metrics will ensure that treatment is delivered in accordance with accreditation standards, departmental policies and procedures, licensing regulations, and state statutes. Additionally, Correct Care proposes the State use the following metrics:

- Average Days to Restore to Competency
- Recidivism Rate to State Hospital within 90 Days

What time period should the state set for intervention and evaluation?

Correct Care suggests a five-year period to evaluate the intervention.

At what interim dates should the state evaluate outcomes?

Correct Care would suggest that the State should evaluate interim outcomes each year.

What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

Jail-based competency restoration programs is a relatively new alternative to hospital based restoration. Therefore, actuarially-based cost comparisons are unavailable. However, based on our experience, the Colorado RISE Program has restored 140+ individuals to competency since opening in 2013 at a cost 54% lower than state-operated hospitals. A similar program in California provided by a

private sector provider restores individuals to competency at a cost 38% lower than state-operated hospitals.[4]

Discontinuation Effort

How would service to the target population improve without the program?

The services to the target population would improve for the State by providing the ability to match the appropriate resources to the needs of the patient population. This would ensure the State is providing competency restoration services to patients in the appropriate setting, either jail or hospital based, depending on each individual's needs. In addition, the State would maximize patients' success by serving individuals closer to his/her support system such as family and support systems.

What would be the comparison for the government program?

The jail-based competency restoration program would be comparable to the State's psychiatric hospitals.

Would the government divert resources to a more effective program?

Yes, the government would divert resources from state-operated psychiatric hospitals to vendor-operated programs. In other states with jail-based competency restoration, the State has realized reduced costs and quicker access to care for patients.

Who in the private sector could offset the government program's services?

Private sector providers could offset the government program's services by providing a jail-based competency restoration program. Additionally, universities could offset these services through forensic psychiatric fellowship programs, internships for other licensed professionals, and/or evaluating the outcomes of the jail-based competency restoration program.

Is the program counterproductive such that stopping it without replacing it would produce better results for the state and the target population?

No. Hospital-based restoration is and will remain a necessary part of the mental health continuum of services since some individuals cannot be treated in a jail setting and require an inpatient level of care. However, the benefits of jail-based restoration include cost savings for the State and quicker access to care for patients.

[4] Based on the Legislative Analyst's Office Report: An Alternative Approach: Treating the Incompetent to Stand Trial, 2012.

Deloitte.

Pay for Success
North Carolina
Office of State Budget and Management

RFI Response (RFI # 49-GOVPFS2015)
August 2015

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Re: Request for Information #49-GOVPFS2015, Pay for Success

Dear Ms. Dickerson,

Deloitte is pleased to submit our response to the State of North Carolina's Request for Information re: Pay for Success.

We are excited about North Carolina's interest in Pay for Success and believe it holds potential to effect important social change. Deloitte is uniquely positioned to advise on this request for information based on our:

- Expertise and thought leadership in Pay for Success
- 15 years of experience working with the State of North Carolina
- Commitment to advancing evidence-based programs that provide measurable outcomes.

We very much appreciate the opportunity to share our expertise and look forward to the chance to work with you in the future.

Please do not hesitate to contact me if I can answer any questions for you regarding our response.

Best regards,

Jitinder Kohli
Director, Deloitte Consulting LLP

Contents

1. Executive Summary

The recent conclusion of the Pay for Success (PFS) contract on New York City's Riker's Island, this country's first, demonstrates the model's value for state and local governments while also highlighting the complexity of these vehicles. Given the intricate landscape that governments must navigate to create a viable PFS deal, it is essential that they have a partner that understands the entire process of developing a contract, from ideation through implementation and evaluation. Based on Deloitte's deep experience in Pay for Success and our long history of effective partnership with the State of North Carolina, we are well positioned to support the State as it considers where to focus its PFS efforts.

The success of the PFS model is dependent on translating the government's priorities into meaningful and measurable outcomes

The Riker's Island model was a success because of the government's clear articulation of desired outcomes. To achieve this type of outcome governments must:

- **Identify priorities that are suitable for PFS:** To develop outcomes that are achievable by PFS, government must first evaluate their goals to determine which priorities are suitable for PFS. Issue areas should have outcomes that are measurable and demonstrated evidenced based solutions, as well as political will and public support. Government can then examine the range of interventions that might be applicable.
- **Be clear on the target population:** In order to measure success, it must be clear who the intervention is meant to serve and what the benefits are to that population.
- **Focus on measurable and observable outcomes:** Outcomes should be defined in a manner that are observable and can be evaluated against quantifiable metrics within a limited time frame, typically three to eight years.

Defining the value of outcomes is critical and requires accounting for benefits beyond just cashable savings

Establishing the right "price" for an outcome is essential for the government to see savings and incentivize potential investors. Most projects have based the price on the cashable savings that accrue from achieving the outcome. However, a more inclusive and arguably more accurate valuation includes consideration for societal well-being and social priorities, both of which can increase the price.

A skilled partner can help government mitigate the transaction costs and risks associated with structuring a PFS contract

These tasks can be both challenging and time consuming for governments, requiring experience in multiple issue areas, skills in cost benefit analysis and performance evaluation, and connections to a wide range of stakeholders with varying priorities. Deloitte has the depth of experience and independence to serve as an objective partner to the State of North Carolina in developing Pay for Success initiatives.

2. Deloitte's Role in Pay for Success

What role would your organization have in a Pay for Success contract?

Deloitte can provide technical assistance in developing PFS contracts, supporting with program design, deal structuring, and implementation. We also have deep experience in audit and evaluation and can serve as an impartial evaluator during implementation.

As a leader in consulting and advisory services with expertise in Pay for Success, Deloitte can serve as strategic advisors, helping North Carolina to identify and navigate the many complexities and challenges inherent in setting up a PFS contract. Across our U.S., Canada, and international practices, we have published numerous studies and guides on the emerging field of PFS and have provided advisory services to a range of clients designing and implementing performance and outcome-based contracts. Our deep experience advising public sector clients through some of the toughest social challenges, matched with our expertise and growing capabilities in PFS, enable us to help partners identify suitable opportunities for PFS contracts, conduct sophisticated cost benefit analyses, structure complex arrangements, convene stakeholders, and provide technical assistance. We are neutral arbiters and can help North Carolina to assess the specific needs of its PFS projects and identify suitable partners.

Outcomes-Based Agreements

In fall of 2014, Deloitte partnered with Georgetown University's Beeck Center for Social Impact and Innovation to publish **Funding for Results: A Review of Government Outcomes-Based Agreements**.

Through the exploration of five innovative case studies, the report explores lessons learned from U.S. and global examples of outcomes-based agreements. These lessons focus on three key dimensions for developing and implementing an outcome-based agreement: Negotiations and Relationships; Outcomes and Incentives; and Measurement and Evaluation.

The report and the lessons learned from over 45 interviews served as the foundation for a convening of 150 public and philanthropic sector leaders in Washington DC.

Deloitte is also well equipped to serve in an evaluation capacity. Deloitte's audit division has decades of experience in crafting audit and evaluation methodology, as well as in-depth analytics knowledge, and a wealth of expertise employing careful examination standards in public sector settings at the local, state, and federal levels.

Deloitte has built strong relationships with the range of actors involved in PFS

Each PFS project is unique and requires a distinctive assemblage of participants who are suited for the specific issue area, outcome, and target population. Deloitte has worked with several leading institutions in the PFS field, including academic institutions, nonprofit organizations, federal agencies, and state and city governments. Among our many partners are Georgetown University's Beeck Center for Social Impact & Innovation, the Urban Institute, and the Centers for Disease Control and Prevention (CDC). Our extensive network in the PFS

space, along with a position of impartiality, enables us to identify potential suitable partners for PFS engagements and provides us a strong understanding of which organizations could best fill particular roles on each project.

Deloitte has extensive experience assisting all levels of government tackle their most complex problems, including 15 years of partnership with the State of North Carolina

Deloitte works with agencies and organizations across all levels of government to help leaders tackle their most complex challenges, including many of the social challenges facing society today. Recently, Deloitte partnered with the CDC to create a "how to" guide to use when designing and implementing PFS contracts. The guide, which focuses on lead poisoning prevention, provides a framework for public officials and leaders to follow when funding and launching social programs in their respective communities, cities, or states.

Deloitte's State and Local practice has had the privilege of an extensive working relationship with the State of North Carolina extending back more than 15 years. Our Deloitte teams have worked across education, transportation, IT, human services, workers compensation, finance, grants, budget, public safety, and corrections.

Our firm has built its reputation on our ability to implement strategic initiatives and to serve as objective evaluators and auditors

Deloitte brings to the table a vast array of experience in designing, implementing, and evaluating clients' most important strategic initiatives. Deloitte performed a programmatic evaluation examining the knowledge, use, dissemination, and feedback on obesity prevention efforts funded by the CDC. We created qualitative and quantitative evaluation protocols, including using in-depth interviews and an online survey to collect data; developing and executing an evaluation plan for the project; and generating reports and recommendations informed by both study methodologies. The results of this project helped CDC understand the efficiency and effectiveness of nutrition and obesity prevention materials for beneficiaries.

Our experience implementing complex initiatives extends to the State level, including in North Carolina. Just in the last year, Deloitte partnered with North Carolina to implement the North Carolina Government Efficiency and Reform (NC GEAR) project, impacting how the State works across government in areas such as transportation, workforce development, IT, and grants management. The structured process developed by NC GEAR provided analytical rigor to the way that the government compares the value of various types of investments across sectors, allowing the State to determine the most impactful and high-value opportunities. We also successfully implemented two of the largest information management systems undertaken by the State in the last ten years: ORBIT – North Carolina's state retirement system; and BEACON - North Carolina's statewide HR/Payroll System. Those experiences have enabled us to develop an understanding of the current processes as well as the systems and key leadership in place that informs and refines our understanding of the strengths and opportunities of the State.

3. Creating Meaningful Outcomes

What outcomes should the State pursue?

Outcomes should be observable and objectively measureable within a specified time horizon. For certain policy areas the outcome is easily defined, observable, and measurable. For other areas the outcome can be more challenging and requires standard means to measure progress.

Choosing the right issue and defining the target population are the basis for establishing measurable and observable PFS outcomes

Prior to determining PFS outcomes, governments must evaluate how a program fits within their overarching policy goals, clearly define the problem they wish to solve, and identify the target population they hope to serve. After this analysis has been completed, governments can explore emerging and evidence-based interventions and determine specific outcomes for a PFS contract.

Sample Outcomes from Selected PFS Request for Proposals

Request for Proposals (RFPs)	Outcome(s)
Illinois RFP: At Risk Youth (2013)	Provide greater community-based placement stability and reduce recidivism for high-risk crossover youths dually involved in DCFS and IDJJ Reduce recidivism, increase employment opportunities and job retention in livable-wage careers, increase high school graduation/GED certification, and increase enrollment in post-secondary education, technical, professional certification programs for justice-involved youths at a high risk of reoffending.
Michigan RFP: Child and Maternal Health (2014)	Improve birth, health, and other outcomes of mothers and infants in Michigan's Medicaid population by reducing infant mortality, reducing pre-term, low, and very low birth weight, improving child and maternal health pre- and post-birth, and reducing Emergency Department usage
County of Santa Clara, CA RFP: Chronic Homelessness (2014)	Reduce chronic homelessness in the county and increase the quality of life of the chronically homeless by stabilizing them in supportive housing or other long-term housing situations and improving health, with the desired consequence of decreasing their use of emergency and other costly county services
Massachusetts RFR: Social Innovations Financing for Youth-Intermediaries (2012)	Reduce recidivism rates for youth aging out of the juvenile corrections system, increase positive outcomes for these youths including educational attainment, labor market success, and housing stability, and produce cost savings for Massachusetts that are at least equal to the expenditures on the program

Select the right issue: Prior to determining outcomes, government agencies seeking to implement PFS must carefully consider whether the issue area they wish to tackle can be addressed with this model. To determine if a promising issue area fits a PFS program, governments should develop a short list of PFS candidates based on several factors including alignment with an administration's or department's overarching goals (e.g., reducing homelessness, improving education, reducing spending), public support for the issue, underinvestment in preventative measures in the issue area, the potential for measurable and observable outcomes, availability of effective interventions, and availability of service providers of interventions. Governments should also consider the potential perverse incentives or

externalities that may be generated by pursuing a specific policy goal (i.e. any behavior that harms or goes against the target population's wellbeing or could go against the wellbeing of another population).

Identify the target population: Since PFS projects focus on bringing effective social services and interventions to the people most affected by a problem, it is important to determine the desired beneficiaries of an intervention. In order to determine the specific population that should be addressed through PFS, governments should analyze where resources are currently being spent, the beneficiaries of that spending, and who requires the most remedial services and why.

Evaluate existing evidence and interventions: Once the issue area, target population, and desired outcomes have been identified, states should explore interventions that have demonstrated measurable success. The outcomes of these interventions can be used as baselines for establishing outcomes and metrics for PFS contracts. These baselines might be found through researching evidence-based practices databases or finding organizations with strong track records of success with the target population. Governments can also benchmark against program outcomes achieved in other jurisdictions.[1] The availability of clear benchmarks for success will vary widely based on the issue area and the complexity of the problem addressed.

Establish outcomes: Based on the preceding analysis, governments can begin to develop specific outcomes that they hope to achieve with PFS. Outcomes for PFS projects must be observable and measurable. Observable means that the changes sought to effect—in behaviors, conditions, or infrastructure—can be perceived and verified by the parties to the PFS contract. Measurable refers to the ability to quantify and measure if the outcome is achieved. Outcomes should also be developed so that they can be achieved in a specific timeframe, normally three to eight years.

The scale and type of working capital provided by partners will be determined based on the specific needs of program

Given the flexible nature of the PFS model, external investors may not be required. However, a number of external organizations have needed to raise working capital from investors to deliver services. This working capital can come in a variety of forms and at various scales depending on the specifics of the contract.

- **Types of Investment:** PFS contracts often have a mix of investment types which can include one or more investors contributing senior debt, subordinated debt, and/or equity. Foundations have also contributed grant money as well as loss guarantees to mitigate some of the risk to investors. In addition, implementation partners can also contribute funds or defer payment for services.

[1] "Evidence-Based Policymaking: A guide for effective government," Pew Charitable Trust, November 2014. Available at http://www.pewtrusts.org/~/media/Assets/2014/11/EvidenceBasedPolicymakingAGuideforEffectiveGovernment.pdf?la=en

- **Scale of Investment:** The scale of investment from each participant varies widely depending on the contract and the mix of investors.

The value of an intervention includes more than the cashable savings for government

Payment from the government will depend heavily on the structure of the PFS contract. However, the most important factor in determining a PFS contract payment schedule is accurately determining the worth of the outcome to the government and society. Governments should focus on developing a robust analysis of an intervention's value, considering the full societal impact of the potential intervention. Many PFS projects have tried to establish a price for the outcome by calculating the "cashable savings" to government – i.e., a calculation of the reduction in future non-discretionary service costs as a result of the outcome being achieved. In addition to these more easily quantified savings, government must also take into account the broader wellbeing benefits to society, as well as the willingness of government and society to pay based on the priority of a given issue – both of which can increase the value of the outcome.

Payment structures: Outcome-based payment schedules generally fall in one of two groups: 1) payment triggered by the achievement of an aggregate outcome, or 2) payment per individual case. In the former, the payment schedule often involves comparison between two groups. If the cohort receiving the intervention performs significantly better than the control group, the outcome is then achieved and the government pays the external organization. But if the intervention cohort's performance is similar to the control group, or the difference does not meet the threshold level defined, outcome payments are not triggered. The other payment option is for the government to make a payment per individual in an intervention cohort who meets a specific goal.

4. Measuring Success

How should the State measure and pay for success?

Defining clear metrics is an essential part of crafting a PFS contract, enabling the government to establish how and when it will measure the success of an intervention. Metrics are the ability to quantify and measure if the desired outcome is achieved by gauging the progress and results of the program. Put simply, outcomes define success and metrics prove it.

Defining objective measures of success in social programs is difficult and determining how benefits accrue to an array of organizations further complicates the process. Identification of meaningful metrics is pivotal in determining the suitability of a PFS program. A rigorous, systematic, and non-biased evaluation process must be developed that satisfies all parties prior to program implementation (*See Appendix for evaluation methodologies and examples).* Although specific metrics are finalized during contract negotiations with the external organization, the State should be clear about the necessary inputs for defining metrics and ensuring that they are consistently and accurately monitored.

Metrics should clearly show how the change in the outcome is directly attributed to the PFS intervention

Articulate the Theory of Change: An effective program will clearly lay out how the intervention achieves the desired outcome. The "theory or change" should link the intervention's inputs and activities to outputs, which directly manifest in intermediate measurable outcomes, also known as performance metrics.

Focus on the impact on the target population: Metrics should affect the entire scope of the target population and not just a subset of those most likely to succeed.[2] The targeted group should be focused enough to provide maximum impact, while large enough to detect statistically significant change and state savings within a reasonable time period.

Establish a methodology for evaluation: Evaluation may require a comparison between the outcome that was achieved in the target population and a control group—demonstrating what would have occurred in the absence of the intervention. Setting up a control and intervention group can help validate the benefits that arise from the program itself, eliminating external variables of subjectivity. In some cases, an intervention may have already been proven

[2] "Social Impact Bond Technical Guide for Service Providers." MaRS Centre for Impact Investing, 2013.

through rigorous evaluation. In these cases, a metric may be agreed upon based on industry accepted benchmarks or the success of prior interventions.

Define the timeline: Timetables vary depending on the intervention, data required, and the level of evaluation to demonstrate desired outcomes. Contracts to-date have typically been from three to eight years. This duration allows enough time to collect, evaluate, and validate results, while providing service providers with a steady stream of funding. In addition, three to eight years provides a realistic time horizon for investors to receive a return.

Establish interim evaluations: Programs need ongoing attention to function properly and reach optimal results. Establishing partial targets, such as quarterly measures, allow for adjustment during implementation. PFS contracts should also define clear exit points and contingency plans in the event that short-term or intermediate outcomes are not met. Two mechanisms are used to formalize interim evaluations:

- **Reporting schedule protocol:** A reporting schedule creates procedures for data collection and reporting. This allows participants to gather the minimum data necessary to evaluate the efficacy of the project and shift if necessary early on in the program.
- **Payment schedule:** A payment schedule dictates disbursement of funds when outcomes are achieved to a defined level of confidence and establishes interim evaluation dates throughout the duration of the intervention.

Determining cost requires calculating both the direct costs of an intervention as well as the costs to government and society without an intervention

The complexity involved in determining the cost of the intervention can vary widely based on the issue area. Thus, costs with and without intervention must consider different factors.

- **Cost without intervention:** When available, current data should be included to calculate the current individual cost to government. The following data sources help provide a current cost estimate for the target population: government budgets, historical rates of services, databases of evidence-based interventions, market rates, and previous reports on the social issue.[3] Associated costs related to indirect government services and drivers of the social issue can also be included.[4] These resources can be supplemented with interviews and focus groups to provide supporting qualitative data.
- **Cost with intervention**: The cost of implementing the intervention should consider program delivery, evaluation, advisors, performance management changes, intermediary services and inflation.[5] Projected individual cost with intervention can be calculated by estimating the reduced cost to government in the future and calculating the difference between intervention and non-intervention measures.

[3] "Social Impact Bond Technical Guide for Service Providers." MaRS Centre for Impact Investing, 2013

[4] "Five Steps to Pay for Success: Implementing Pay for Success Projects in the Juvenile and Criminal Justice Systems." Urban Institute, 2014.

[5] Ibid.

5. Scaling Successful Programs

How would you expand a new program through scale or replication?

Prior to scaling a PFS program, the government must have clear evidence that the intervention has demonstrated sustained success, a model that is applicable to groups outside of the original target population, and an environment that will support expansion.

The potential for scaling successful evidence-based programs is one of the most alluring aspects of the PFS model

However, governments must be careful to evaluate programs prior to scaling to manage the administrative burden as well as mitigate risk. Deloitte has identified several best practices for determining whether a program should be scaled:

Demonstrated Success: While it is clear that only successful interventions should be scaled, the State will need to determine what level of evidence is required for expanding a program. As noted above, PFS models may have multiple interim reports on the progress of an intervention. Initial results may not represent a complete view of an intervention's ability to produce sustained results in other settings. Administrative and financial burdens that could be a barrier to scale may not be immediately apparent. Governments will need to consider when an intervention has demonstrated a high enough level of success to be replicated.

Scalable Model: An intervention should be evaluated based on its adaptability to a new environment and/or target population. A program that may be effective in one locality may face resistance because of the organizational, cultural or bureaucratic realities of the new setting. In order to anticipate these challenges and adapt the program, the service provider and/or external organization must have a robust learning system, whereby interim feedback or data may be collected in order to identify, diagnose, and address challenges.

Supporting Environment: Governments should also consider whether the existing systems and organizations can support scale. A service provider will need to demonstrate adequate capacity to increase the reach of their activities or replicate efforts. If additional service providers are required, the State will need to determine whether organizations possess the necessary performance management to implement an intervention. Governments should also consider the ecosystem of local government, social service providers, investors, and others who could contribute or present an obstacle to successfully scaling a program in a new location.

Deloitte can support the selection and implementation of scaling initiatives

Given Deloitte's experience in assisting clients' pilot and scale innovative approaches, our organization can serve a number of advisory roles to support the expansion of a program or intervention in North Carolina. As referenced in section 2, our experience allows us to serve as a technical advisor for the entire complex life cycle of a scaling project, from program design through due diligence, cost-benefit analysis and pricing, implementation, and performance evaluation.

The State's role will depend on how it chooses to scale and how it desires to partner with other stakeholders

There are a number of roles that the State could take on for scaling a successful PFS program including:

- **Piloting project through PFS in another jurisdiction:** The State may choose to use a PFS contract to test a program's efficacy in another jurisdiction.
- **Contracting additional implementation partners:** If the program is a clear success across geographies and populations, the State may choose to immediately scale the project by contracting additional services, launching a larger contract with the current service provider, or working with local governments to provide service directly.
- **Incorporating a program into existing initiatives:** A State may choose to reform existing programs to more closely mirror the successful PFS initiative as well as ceasing programs that have not demonstrated the same level of success for the target population.

APPENDIX

Evaluation Methodologies and examples for PFS Programs throughout the United States:

Evaluation Methodology	Example	Considerations[6]
Randomized Controlled Trial (RCT) **Outcome Measure:** Compare individuals in the target population who are randomly allocated to be treated with the intervention, with those do not receive the intervention and are continue with the status quo.[7]	New York State is using an RCT in order to evaluate whether the Center for Employment Opportunities (CEO) is successful in reducing the level of recidivism in the State with a scale-up of CEO's training and employment programs.[8]	• **Rationale:** RCTs are the **gold standard** of impact evaluations as they are the most statically rigorous. Randomization ensures that the intervention is the only difference between the control group and treatment group, on average. • **Issues:** RCT systematically provide an intervention to one group, while withholding it from another which may create an **ethical** issue of allowing a group to go untreated or partially treated to be tracked for comparison. • **Resources:** RCTs require a **high** level of resources: twice the number of participants must be tracked for quality outcome assessment.
Regression Discontinuity Design (RDD) **Outcome Measure:** Compare outcomes of those just below and just above program eligibility thresholds.[9]	The congressionally mandated Reading First Impact study provides an example of the utilization of RDD in practice. The study leveraged the State's rank order approach for disbursing Reading First grants to schools, and found that the $1 billion program resulted in no statically significant changes in reading or comprehension, on average.[10]	• **Rationale:** Some interventions have an eligibility requirement in order to ensure interventions and resources are directed at those who are deemed more eligible than others. However, these individuals would be systematically different than those who are not selected. To **avoid selection bias**, regression discontinuity analysis compares those right above and right below the cutoff, as they are likely to be similar enough for a valid comparison. The cutoff is in effect arbitrarily set. • **Issues:** This methodology may introduce **perverse incentives** for service providers, as they may focus more on individuals close to the threshold rather than those most in need. • **Resources:** Regression discontinuity design requires a **medium** level of resources as there must be an adequate sample size of respondents clustered around the quantitative threshold.
Difference-in-Difference Comparison **Outcome Measure:** Compare changes in outcomes for	The New Merit Aid study employed the difference in difference approach to assessed the effect of the New Merit Aid programs on college attendance, finding that the program increased	• **Rationale:** In some instances, interventions are naturally withheld from some individuals on account of resource restrictions, geographic realities, or service areas. A difference in difference analysis can compare a treated group with an untreated group to determine the effect of the intervention. • **Issues:** The expectation is that those in the untreated group respond to the same external forces as those in the treated

[6] Social Impact Bond Technical Guide for Service Providers. MaRS Centre for Impact Investing, 2013

[7] Ibid.

[8] "Social Finance Drives Landmark New York State Deal," Social Finance, 2014.

[9] "Partnering for Social Change: Funding 'PFS' Initiatives and Expanding Social Impact," PPIA Junior Summer Institute, 2013.

[10] "Reading First Impact Study," U.S. Department of Education, April 2008.

individuals with the intervention to untreated similar individuals.	attendance probability of college age youth by 7-10% and shifted choices from two-year to four-year institutions.[11]	group, and both groups would follow the same trend if not for the intervention. The difference in difference eliminates the trend effect in order to isolate the impact of the intervention. Without this assumption, this approach is **not internally valid**. • **Resources:** Depending on the outcome of interest and data availability, this approach may require a **relatively low** level of resources as outcome data must be collected or may be otherwise sourced only pre and post intervention.
Historical Baseline **Outcome Measure:** Compare past outcomes for similar individuals using historical data.	The Adolescent Behavioral Learning Experience (ABLE) at Rikers Island prison in New York based evaluation design on the net difference in reoffending rates between the target group and a historical baseline based on a similar cohort from the previous five years to reduce recidivism for detained youth.[12] The project was discontinued after the program's first evaluation demonstrated that the intervention failed to meet the agreed upon success metric, resulting in no payout required from the government.	• **Rationale:** When outcome levels are consistent over a number of years, the situation may provide a stable historical baseline and benchmark. • **Issues:** If external factors, such as socio-economic trends, affect targeted outcomes, then this approach cannot isolate the effect of the intervention from the effect of these external forces, rendering the approach **internally invalid.** Relatively few outcomes fit this requirement. • **Resources:** Historical baseline methodology only requires the tracking of the individuals within in the intervention, which requires the **lowest** level of resources.

[11] Dynarski, Susan. "The New Merit Aid," Harvard Kennedy School of Government Working Papers, 2004.

[12] Bridges Ventures. "Choosing Social Impact Bonds a Practitioner's Guides," 2014.

NANO MATERIALS & PROCESSES INC.

Scientific and engineering imagination creating disruptive, high value products and solutions

STATE OF NORTH CAROLINA
REQUEST FOR INFORMATION NO. 49-GOVPFS2015
PAY FOR SUCCESS

OPENING DATE: AUGUST 11, 2015

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Contents

Executive Summary

Nano Materials and Processes, Inc. ("NMPI") manufactures a variety of products that deliver systemic savings in the operation of motor vehicles, buses and other forms of transportation powered by an internal combustion engine. Our products are based on the Detonation Synthesis Nano Diamond ("DSND") which we produce. DSND has a variety of unusual properties that (a) modify the behavior of other materials and (b) act as a catalyst to improve chemical reactions (e.g., fuel combustion). Products produced by NMPI that may be used in the proposed program include:

- Engine oil additive
- Grease additive
- Hydraulic additive
- Gear oil additive
- Fuel additive (combustion catalyst)

NMPI produces other products such as cutting fluid additive, modified resin systems for enhanced performance of composite materials and medical products.

The benefits are achieved through reduced maintenance cost and reduced fuel consumption. Expected results include:

- Extended engine oil life by up to 2-1/2 X
- Treated component life extended by up to 40%
- Fuel economy improved by 6% to 15%
- Consumption of DEF by diesel engines reduced by >30%

As a further benefit when using the Fuel Additive-CC there is a significant reduction in air pollutants produced by engines including NOX, soot, CO and unburned hydrocarbons.

NMPI establishes program metrics and results measurement, supplies the products and includes engineering and other technical and consultative support needed to implement and manage the program. The chief executive of NMPI has more than forty (40) years of experience delivering services on a gain-share basis.

Background

What role would your organization have in a pay for success contract?

NMPI provides (a) program design, (b) program metrics including baseline calculations with State of North Carolina (agency) review and agreement, (c) program reporting through maintenance and consumption metrics collected by the agency, (d) the products required by the program design and (e) management and engineering/technical support needed to implement and maintain the program. This would be a continuing engagement so long as NMPI products are used by the State or Agencies.

What potential partners have you identified to fill other roles?*

No partners are required to fill other roles.

What experience does your organization have working with government entities?

The CEO of NMPI has delivered success fee based programs in other areas to the State of Georgia, Commonwealth of Kentucky, City of Dallas (TX) and other governmental entities during previous employment. All programs resulted in significant results including refunds and reduction of ongoing costs related to telecommunications expenses.

While this is the first time NMPI has offered its products on a gain-share basis to a government entity, the principles of such an engagement are known and straightforward with outcomes measured using standard, easy to understand, quantitative methods.

What experience does your organization have in implementing or evaluating initiatives?

The CEO of NMPI has more than forty (40) years experience in technology project and program design and management. Projects are broken down into their logical components with assigned responsibilities, due dates, and review and remediation processes. Critical data is defined. Projects are fully documented.

The CEO of NMPI has designed proven savings measurement methodologies since 1974. Savings are measured against documented, existing baseline costs and calculated in a mutually agreed upon manner. Savings are calculated as the difference between baseline costs and costs following program implementation.

Other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

NMPI is the manufacturer of the products that will be offered. The products utilize detonation synthesis nanodiamond ("DSND") that we refine or modify to meet the needs of specific applications. There is an extensive body of scientific literature regarding DSND. NMPI has test data to support its claims.

There are no potential conflicts of interest.

What outcomes should the state pursue?

What evidence exists for a baseline comparison?

While NMPI is not aware of the records maintained by agencies, it is anticipated that existing records of maintenance costs, maintenance practice, fuel consumption, etc. will be available. In the event they are not adequate, NMPI will design a program of cost documentation to establish a pre-program baseline. In addition, NMPI will provide third-party testing for engine oil life to establish a post-implementation oil-change interval.

What investment would be required by investors?

NMPI will provide the expertise needed to establish, implement and manage the program, the products needed for the program and third-party testing when required to document results or establish new maintenance standards. The actual cost will vary depending upon the extent of the program. It is anticipated that a proof of concept phase will be required. It is estimated that the proof of concept phase will cost less than $20,000, all of which would be provided by NMPI.

What payments would be expected from the state? (rough order of magnitude)

While NMPI is not aware of the current costs experienced by the State, NMPI estimates that the Success Fees would be in the range of 3% to 6% of fuel costs and 10% to 15% of maintenance costs and vehicle replacement cost. Other savings may be recommended and would result in additional fees.

What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

The program would be open to all local governments on the same basis as that offered to the State.

How should the state measure and pay for success (cashable savings, wellbeing benefits, and willingness to pay)?

What metrics should the state use?

Both short-term and long-term metrics may apply depending upon the actual program(s) implemented.

Typical short-term metrics include:

- Improvement in fuel economy and reduced fuel consumption
- Reduction in the use of DEF for diesel engines (treatment for NOX)
- Reduction in the frequency of engine oil changes

Typical long-term metrics include:

- Reduction in the cost of major vehicle repairs, e.g., major engine repairs involving lubricated components, transmission or differential repairs
- Reduction in the frequency and cost of repairs to hydraulic systems
- Increased vehicle availability (may reduce fleet size)
- Reduced maintenance staff
- Increased useful life of vehicles (e.g., reduce frequency of vehicle replacement)

What time period should the state set for intervention and evaluation?

Program evaluation for most short-term measurable results is less than six months depending upon the amount of use the group of proof-of-concept vehicles receives.

Program evaluation for long-term results may take two to three years as this measures the impact on major repairs and fleet life. One way of reducing this period may be to have a separate proof of concept that includes higher mileage vehicles.

At what interim dates should the state evaluate outcomes?

Statistics will be accumulated and reported not less than monthly. Short term outcomes will be evaluated quarterly.

Long term outcomes will be evaluated annually unless otherwise indicated.

What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

This question does not apply.

If a new program, how would it expand through scale or replication?

What continuing role would your organization have in continuing the program?

NMPI will manage the program and provide support and products for the duration of the program.

What role would the state have in continuing the program?

The State (or agency) will regularly record and report the consumption metrics necessary to evaluate outcomes. The State (or Agency) will also participate in regular meetings to review program results and agree upon savings calculations and fees.

What would the ongoing costs of the program be?

The program cost will be the Success Fee earned by NMPI. NMPI will also offer the State (or agency) the opportunity to change to a price of product fee at the discretion of the State (agency).

No other costs are anticipated.

Product Data Sheets

See the following pages.

Engine Oil Additive - FM

Product Description and Benefits

Engine Oil Additive – FM is available in two blends**: FM-Conditioner** and **FM-Protect**.

FM-Conditioner is a blend of specially prepared 4-10 nm nanodiamonds in a graphene shell and other materials in oil that conditions the surface of worn cylinder walls, bearing journals, camshafts and other oil lubricated components over a 1,500-2,000 mile break-in prior to the long term use of FM-Protect. FM-Conditioner may be used a maximum of two times on badly worn engines. (Note: FM-Conditioner may not be effective on some severely worn engines.)

FM-Protect is a blend of 4-10 nm nanodiamonds with a graphene shell in an oil base that is added with each engine oil and filter change for the life of the vehicle.

Engine Oil Additive FM delivers a range of benefits that significantly lowers the total cost of ownership of the engine. These benefits derive from the size and physical characteristics of the nanodiamonds:

- Friction Reduction

  Nanodiamonds "polish" surfaces that are subject to 'metal-to-metal' contact. Even surfaces that appear to be smooth and have been finished to a very fine tolerance have microscopic imperfections. When two metal surfaces pass by each other in close contact, these imperfections 'catch' and produce erosion by electrosparking thereby creating wear and heat. Nanodiamonds polish this micro-roughness and also fill gaps in the metal crystal lattice to virtually eliminate this type of wear.

  Nanodiamonds increase the lubricity of engine oil. Untreated engine oil thins out under high heat and hydrodynamic wedge conditions causing wear from metal-metal micro-contacting. The exceptionally high surface activity of nanodiamonds causes the engine oil to maintain its viscosity and lubricity even under these conditions.

- Reduced of Combustion Byproducts

  Some Engine Oil Additive-FM components migrate into the combustion chamber through vaporization of engine oil and recycling through the Exhaust Gas Recirculation (EGR) system. Since the flash point of nanodiamond is higher than that of the fuel they, do not ignite, but are dispersed in the air/fuel mixture where they *act as a catalyst to improve the combustion process*. As a result, the production of soot is reduced along with reductions in emissions of NOX, CO and hydrocarbons. In diesel engines impacts the load on the soot capture system and the consumption of fuel to eliminate collected soot. It also reduces the cost of DEF to reduce NOX. For some types of vehicles it may also increase the number of hours per day the vehicle can be utilized saving both operator time

and, for large operations, reducing the quantity of vehicles and operators needed.

To obtain significant reductions in the production of emissions and soot, consumption of DEF and fuel consumption, use NMPI Fuel Additive - CC with each fill-up of gasoline or diesel fuel.

- Temperature Stability

  Oil is a natural insulator and heat is an enemy of lubricant and component life. Nanodiamond is a natural conductor and facilitates the movement of heat out of the engine. This can be seen in stabilized operating temperature and the improved time to cool down for the engine.

- Extended Engine Component Life

  As a result of the "polishing" and high surface activity of the nanodiamond that improves the lubricity of the oil and reduces oil contaminants, the life of the lubricated components is extended by 2X to 4X, even under severe conditions of use.

- Extended Engine Oil Life

  The breakdown of the engine oil additive package is closely related to the production of soot by the engine and the collection of impurities produced by electrospark erosion. By significantly reducing the production of engine oil contaminants resulting from the combustion process the engine oil and additive package life are extended by approximately 2-1/2 X. The useful life of engine oil will vary by application and environment. Actual life will be determined by using periodic laboratory testing.

  Direct benefits from extended engine oil life include (a) reduced vehicle downtime, saving two annual oil changes for vehicles on a 25,000 mile cycle and the costs related to those changes, (b) reduced size of maintenance facilities and related personnel and (c) reduction in the total quantity of vehicles needed in very large fleets.

Applications

Engine Oil Additive – FM can be added to any engine with a lubricating oil sump. This includes both vehicular and non-vehicular engines (e.g., generators). Typical applications include:

- Trucks
- Buses
- Locomotives
- Generators
- Taxis

- Off Highway Equipment such as skid loaders, excavating equipment, mining equipment and construction equipment
- Passenger cars

Determining the Quantity of Engine Oil Additive – FM Required

Use the quantity of Engine Oil Additive – FM as indicated in the following table. Note that the additive is sold by volume and not by fill.

Recommended Additive Package Size	
Oil Sump Capacity in Quarts	**Additive-FM Package Size**
4-5	**1.6 oz.**
6-8	**2.5 oz**
36-42	**12 oz.**
42-50	**15 oz.**
60	**18 oz.**

DO NOT USE MORE THAN THE RECOMMENDED AMOUNT; RESULTS WILL BE IMPAIRED!

Additional Information

Contact Nano Materials and Processes, Inc. for no-charge application engineering support.

Independent laboratory test report using ASTM D3233B Modified Falex Pin & V Block Test is available.

Please see our website at www.nanompi.com or call us at 248-529-3873.

Fuel Additive - CC

Product Description and Benefits

Fuel Additive – CC is a blend of specially prepared 4-10 nm nanodiamonds with graphene shells in a petroleum based carrier.

Fuel Additive – CC is available for both diesel fuel and gasoline engines.

Fuel Additive – CC is added to the vehicle fuel tank with each fill-up.

Fuel Additive – CC leverages the highly active, large surface area of nanodiamonds to deliver increased combustion efficiency by freeing oxygen. Because the flash point of nanodiamond is higher than that of the fuel, the nanodiamonds do not ignite, but are dispersed in the air/fuel mixture where they act as a catalyst to improve the combustion process. As a result:

- The production of soot is significantly reduced along with emissions of NO_X, CO and hydrocarbons.
- In diesel engines it reduces the load on the soot capture system and the consumption of fuel to eliminate collected soot.
- Utilization of Diesel Exhaust Fluid (DEF) to reduce NOX decreases by more than 30%.
- Fuel economy increases by up to 15% with 6-10% improvement expected in most cases.

For some types of vehicles use of Fuel Additive - CC may also increase the number of hours per day the vehicle can be utilized saving both operator time and, for large operations, reducing the quantity of vehicles and operators needed.

There is also an indication that the nanodiamond provides durability benefits to items such as valve stems which are lubricated by the engine oil.

Applications

Fuel Additive – CC can be added to the fuel supply of any internal combustion engine. This includes both vehicular and non-vehicular engines (e.g., lawn maintenance equipment). Typical applications include:

- Trucks
- Buses
- Locomotives
- Generators
- Taxis

- Off Highway Equipment such as skid loaders, excavating equipment, mining equipment and construction equipment
- Passenger cars

Determining the Quantity of Fuel Additive – CC Required

The following table relates packaged Fuel Additive – CC to fuel tank size:

Fuel Additive	Fuel Tank Capacity Gallons Per Tank	Additive-CC Package Size Oz.
Diesel Fuel	50	3.2
	75	4.8
	100	6.4
	150	9.6
Gasoline Fuel	12	0.8
	17	1.1
	21	1.3
	25	1.6

Select the package size that is nearest to your actual tank capacity without exceeding the capacity. For example, if you have a 60 gallon tank you should select the 3.2 oz. package; if you have a 15 gallon tank, you should select the 0.8 oz. package.

DO NOT USE MORE THAN THE RECOMMENDED AMOUNT; RESULTS WILL NOT IMPROVE

Contact Nano Materials and Processes, Inc. for no-charge application engineering support.

Using Fuel Additive - CC

Fuel Additive-CC should be added when your tank to approximate the recommended additive concentration and obtain better results. The recommended additive/fuel concentration is 1.89 ml of Fuel Additive - CC per gallon of fuel.

Pour the additive into your fuel tank BEFORE adding fuel so as to assure thorough mixing. If you are filling multiple fuel tanks you should put Fuel Additive – CC in each tank.

Additional Information

Please see our website at www.nanompi.com or call us at 248-529-3873.

STATE OF NORTH CAROLINA	**REQUEST FOR INFORMATION NO.** 49-GOVPFS2015
Email: PayForSuccessRFI@osbm.nc.gov	**Due Date:** August 11, 2015

Executive Summary

The North Carolina Association of Community Development Corporations (NCACDC) and its affiliate network, an integrated coalition of more than 40 community-based service delivery organizations, seeks to expand the work of the State's current fall prevention programs.

In North Carolina, falls are the leading cause of fatal injury, and the second leading cause of nonfatal injury hospitalizations for people age 65 and older. According to 2013 data from the NC Division of Public Health, 2003-12, falls were the number one cause of unintended injury death for individuals in the 65 and older age cohort in NC. For adults over age 65, falls and injuries from falls are a leading threat to health, independence and quality of life.

Falls also have a significant economic impact, accounting for substantial direct medical costs. According to the Center for Disease Control and Prevention's 2013 report, more than $30 billion was spent for this purpose alone in 2010, and it is projected that these medical costs will rise to $50 billion by 2020. With 10,000 people in the U.S. turning 65 every day, unintentional falls among those 65 and older are of great concern, because they occur more frequently and have more severe consequences.

However, most of the state's current fall prevention programs focus on the biological, behavioral and/or a combination of the two risk factors contributing to falls in the home. Very few programs focus on environmental or behavioral factors or both. According to recent research, home and environmental risk factors play a role in about half of all falls. With the growing rate of falls each year, it is apparent that many older adults, their family members and caregivers remain unaware of the environmental and behavioral risks contributing to the likelihood of falls in the home.

To address this gap in coverage, working in partnership with an occupational therapist, the U.S. Department of Agriculture's Office of (USDA) Rural Development and the NC AARP, NCACDC proposes to prevent the risk of falls among community-dwelling older adults by using an environmental modification strategy to reduce and/or eliminate risk factors in the physical environment associated with falls. In the development of the proposed intervention, NCACDC has relied on the Centers for Disease Control and Prevention's *CDC Compendium of Effective Fall Interventions* which identifies specific interventions for community-dwelling older adults that have rigorous scientific evidence of effectiveness.

NCACDC will continue to evaluate various options to further prepare for a formal RFP we hope comes later in order to consider possible investment partners. The Federal Reserve Bank of

Richmond Office of Community Development for N.C. and S.C. is working closely with the NCACDC to expand opportunities for meaningful community development as major cornerstone in communities across the State. As a valued partner, they will review this document and work with us on possibilities for impact investing and SIBs.

Background

The North Carolina Association of Community Development Corporations (NCACDC) and its affiliate network, an integrated coalition of more than 40 community-based service delivery organizations, seeks to expand the work of the State's current fall prevention programs.

In North Carolina, falls are the leading cause of fatal injury, and the second leading cause of nonfatal injury hospitalizations for people age 65 and older. According to 2013 data from the NC Division of Public Health, 2003-12, falls were the number one cause of unintended injury death for individuals in the 65 and older age cohort in NC. For adults over age 65, falls and injuries from falls are a leading threat to health, independence and quality of life.

Falls also have a significant economic impact, accounting for substantial direct medical costs. According to the Center for Disease Control and Prevention's 2013 report, more than $30 billion was spent for this purpose alone in 2010, and it is projected that these medical costs will rise to $50 billion by 2020. With 10,000 people in the U.S. turning 65 every day, unintentional falls among those 65 and older are of great concern, because they occur more frequently and have more severe consequences.

However, most of the state's current fall prevention programs focus on the biological, behavioral and/or a combination of the two risk factors contributing to falls in the home. Very few programs focus on environmental or behavioral factors or both. According to recent research, home and environmental risk factors play a role in about half of all falls. With the growing rate of falls each year, it is apparent that many older adults, their family members and caregivers remain unaware of the environmental and behavioral risks contributing to the likelihood of falls in the home.

To address this gap in coverage, working in partnership with an occupational therapist, the U.S. Department of Agriculture's Office of (USDA) Rural Development and the NC AARP, NCACDC proposes to prevent the risk of falls among community-dwelling older adults by using an environmental modification strategy to reduce and/or eliminate risk factors in the physical environment associated with falls. In the development of the proposed intervention, NCACDC has relied on the Centers for Disease Control and Prevention's *CDC Compendium of Effective Fall Interventions* which identifies specific interventions for community-dwelling older adults that have rigorous scientific evidence of effectiveness.

Moreover, we aim to increase and improve the dissemination of education, awareness and knowledge related to the potential impact of in-home falls and fall prevention strategies. As part

of our proposed home safety assessment and modification initiative, NCACDC will also increase the knowledge of and access to evidence-based home safety intervention measures designed to reduce hazards, decrease life threatening injures and to lessen the associated medical and caregiver costs.

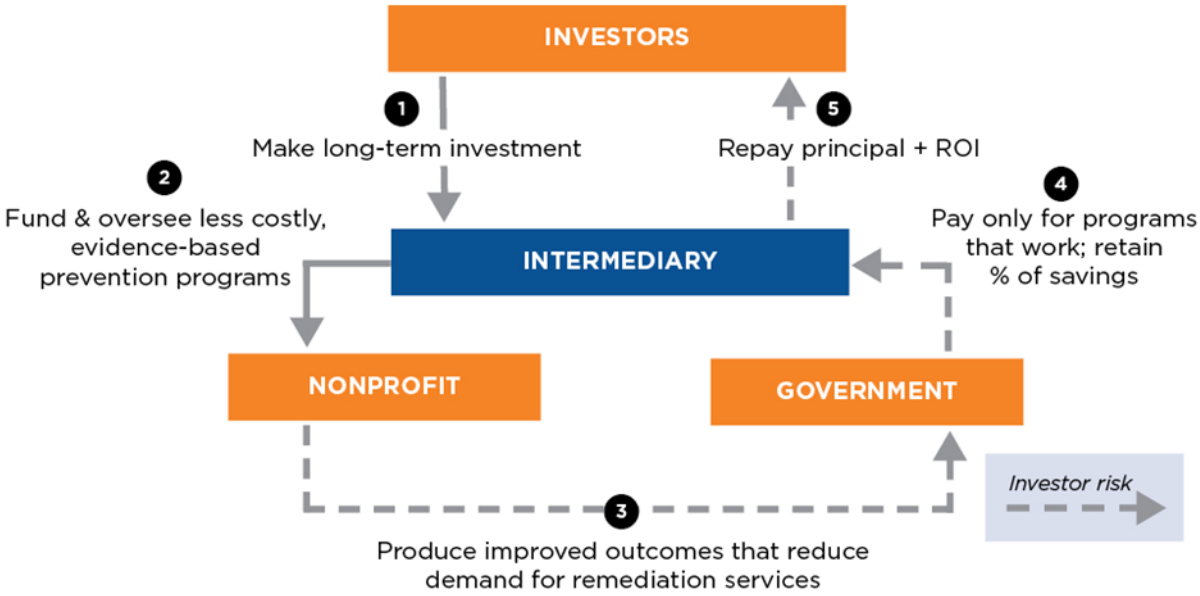
It is our ongoing intention to be a leader in promoting safe home environments as part of a comprehensive fall prevention efforts in NC. NCACDC will fill the role(s) of external organizational intermediary (lead applicant, broker and overall coordinator of the undertaking) by providing leadership to bring together the proposed investors, providers, evaluators and other parties to implement a Pay for Success contract.

Pay for Success (Social Impact Bonds) financing can improve the outcomes of government programs while sharing the costs and risks with private investors. The NCACDC will pursue the investments to be sustained through private funds so that the government payments will offset the startup and capital costs. Further, NCACDC will monitor and maintain the randomized control trials of existing programs to compare costs and results.

In our role as intermediary, NCACDC would also facilitate and implement a data collection methodology with its affiliate network. NCACDC will be accountable for the projects overall oversight and management, including day-to day operations, monitoring on going progress on project tasks and assignments against goals and objectives included in the project work plan. We also expect to prepare regular reports and coordinate communications with investors as well as state and federal partnering entities.

We will also identify and work with an outside evaluator to develop measurement protocols consisting of a comprehensive set of third-party metrics.

FIGURE 1 **SOCIAL IMPACT BOND MECHANICS**



What potential partners have you identified to fill other roles?

NCACDC will continue to evaluate various options to further prepare for a formal RFP we hope comes later in order to consider possible investment partners. The Federal Reserve Bank of Richmond Office of Community Development for N.C. and S.C. is working closely with the NCACDC to expand opportunities for meaningful community development as major cornerstone in communities across the State. As a valued partner, they will review this document and work with us on possibilities for impact investing and SIBs. If funding is made available, we will consider the following strategically established partnerships as part of our undertaking.

Providers: Regarding providers of the proposed home safety assessment and modification services, NCACDC will primarily rely upon our community-based affiliate network to deliver a credible and culturally sensitive outreach, awareness and community education campaign to a targeted audience. Education and marketing efforts will leverage a broad range of existing working relationships including NCACDC's relationships with USDA Rural Development, NC AARP and the NC Falls Prevention Coalition. Other relationships will be expanded between network affiliates and other locally based caregiver organizations, legal aid offices, Latino-led civic organizations, home health agencies, area Agency on Aging offices, senior feeding programs, first responders and other organizations serving people with special conditions and disabilities.

Working collaboratively with a professional healthcare provider, the occupational therapist, NCACDC's affiliate providers will complete a comprehensive home assessment. The providers will also provide education, enhanced awareness of and assistance with identification of appropriate financing packages that may include grants and/or loans to pay for mitigating identified hazards. Providers will aid targeted constituents in overseeing appropriately skilled and affordable contractors to complete home modifications related to reducing in-home falls. Follow up visits or contacts will also be completed as part of the intervention.

Investors: Impact investments are investments made into companies, organizations and funds with the intention to generate measurable social and environmental impact alongside a financial return. Impact investing opportunities exist across asset classes from cash to fixed income to public equities to private equity, venture capital and real assets. Potential investors in NCACDC's senior home safety and assessment modification strategy could include major banks, bank foundations, and bank Community Reinvestment Act opportunities, CDFIs, private health insurance companies and foundations such as the NC GSK Foundation. Further investigation of potential impact investing opportunities will continue as this RFI develops.

Evaluator: To meet the basic definition of impact investment, NCACDC must match our intentions for proactive impact with measurement of those results. We will need to further investigate the potential to create an impact certification regime with third party objective standards and verification. NCACDC also needs to further investigate the parameters for use of its own impact goals and metrics. One entity high on NCACDC's list for consideration as a possible third party evaluation entity is the UNC Center for Urban and Regional Studies. Another may be the UNC Center for Community Capital. We will include the Richmond Federal

Reserve Bank in these discussions as part of the Federal Reserve System interest in impact investing as a tool for community organizations, much as the Community Reinvestment Act has been a tool.

What experience does your organization have working with government entities?

NCACDC is a statewide non-profit organization with over 25 years of experience in training and outreach to a network of over 40 affiliate organizations engaged in community based economic development that has worked with various state and federal agencies such as the N.C. Housing Finance Agency (NCHFA), the N.C. Department of Commerce and the N.C. Banking Commission, NC Department of Justice, USDA and U.S. Housing and Urban Development (HUD).

NCACDC has previously been a recipient of federal technical assistance funding administered by both USDA and HUD. NCACDC has also worked with the N.C. Department of Commerce to meet the housing recovery needs thousands of homeowners in N.C. whose properties were impacted by rising flood waters. In addition, we have most recently worked with the N.C. Banking Commission, the N.C. Department of Justice and N.C. Housing Finance Agency to mitigate the impact of home foreclosures in North Carolina.

What experience does your organization have in implementing or evaluating initiatives?

NCACDC successfully organized a sector-wide initiative to enhance affiliates' capabilities to better track and measure the impact of their work using a state of the art automated assessment tool and process.

By organizing a collaborative influence network with key allies to amplify our affiliates voices and concerns, our leadership of a this campaign resulted in a state executive allocating $30 million to provide to multi-year financing for our affiliates' and others' foreclosure mitigation efforts.

NCACDC has provided leadership to N.C.'s community economic development industry to expand approaches that address health disparities by facilitating the development of healthier environments by focusing on the effects of social and economic determinants of health. This effort is further tied to NCACDC's response to N.C.'s increasing shift in senior population demographics, a growing aging population segment whose medical needs will further strain the state's health care system in the future.

To inform our members' practices and document the negative impacts of a lack of workforce housing, NCACDC built a working relationship with a university-based academic center that conducted applied research at our request and published findings useful to policymakers and practitioners. Member organizations located in some of N.C.'s highest cost workforce housing communities leveraged this research to support enactment of local housing density ordinances and to help secure investment in an $11 million mixed use project.

NCACDC and some of its affiliate members worked with federal, state and local governmental agencies and departments, as well as private entities, foundations and N.C. State University to design and implement Green Economic Transformation through Energy (GETT Energy). GETT Energy was an effort to create a system-level change to overcome barriers to residential energy construction and retrofit that would 1) Improve housing and asset development ; 2) Reduce energy consumption; and 3) Achieve cost savings for low to moderate income families.

Recently during the foreclosure crisis, NCACDC worked with the N.C. Banking Commission and N.C. Housing Finance Agency to assist affiliates in gaining new programmatic and financial capabilities to respond to hundreds of thousands of homeowners threatened with the loss of their properties. Even as this latest crisis coupled with the Great Recession dramatically slowed the traditional work of the community economic development sector, NCACDC has been instrumental identifying new market opportunities, forging new partnerships and collaborations essential in laying the foundation for its affiliates to engage in new lines of business.

Working with the N.C. Department of Commerce, NCACDC has led the development of comprehensive strategies for disaster recovery after Hurricane Floyd, providing customized training and technical assistance to its affiliates to assist them in adapting and retooling their programs to focus on meeting the housing recovery needs of thousands of North Carolinians whose properties were impacted by rising flood waters.

List other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

There are currently no actual or potential conflicts of interest if the organization is selected through a future procurement.

Outcomes

What outcomes should the state pursue?

The state should pursue evidence-based interventions, specifically home hazard assessments and identification of environmental risks and unsafe behaviors, and recommend home modifications and behavior changes with the potential to reduce fall rates and fall injuries in older people.

What evidence exists for a baseline comparison?

The CDC *Compendium* cited above contains information to help practitioners and policy makers use the best scientific evidence to effectively address the problem of falls. Several home modifications interventions are included in this report. Some of the interventions reduced fall rates by as much as one third among those who had experienced falls the year before the study.

Information gathered and included in the CDC *Compendium* has satisfied the following criteria:

- Published in the peer reviewed literature
- Included community-dwelling adults 65 or older
- Used a randomized controlled study design

- Measured falls as a primary outcome
- Demonstrated statistically significant positive results in reducing older adult falls

Moreover, information is regularly collected which documents the leading cause of injury related to deaths, hospitalizations and emergency department visits for those age 65 and older. The NC Injury and Violence Prevention Branch: The Burden of Fall Related Injuries, October 2013 and March 2014, respectively provide the following baseline information:

- In 2006-2007, there were reported among seniors aged 65 and older:
  - Falls Related Deaths – 480
  - Falls Related Hospitalizations – 17,579
  - Falls Related Emergency Department (ED) Visits – 44,541

- In 2011
  - 53% - of seniors were released to skilled nursing facility after a falls related hospitalization

- In 2012
  - 61% of ED Visits for unintended injuries among seniors
  - 86% for unintended falls

- Crude rate of 4,150 seniors per every 100,000 residents will experience emergency department visits for fall related injuries

  =Based on projected 2015 population figures (9,943,964) that would result in 412,675 emergency department visits for unintended falls by seniors this year.

What Investment would be required by investors?

An initial investment by private investors of upfront funding of $720,000 would be required to offset start up costs to launch this home safety assessment and modification initiative which would expand the work of the state's current falls prevention programs. The initial investment would provide core operating support to finance the work of the intermediary and a fee for its services, as well as much needed initial outreach resources for the non-profit service delivery providers.

What payments would be expected from the state?

If the program met the agreed upon benchmarks, the government would pay back the initial costs of the proposed expansion plus an agreed upon rate of return on capital invested by private entities.

What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

The ultimate goal of the Pay for Success - Home S.A.F.E. Program would be to reduce the Medicaid costs associated with falls related injuries to senior adults. More specifically, reducing cost of emergency department visits, hospitalizations as well as skilled nursing facility stays. As Medicaid, is a cost that is shared with both the federal and county governments, there would be an incentive for them to also partner with the state in this regard.

Measurement

What metrics should the state use?

The idea of this Pay for Success – Home S.A.F.E. Program would be to avoid and reduce potential Medicaid costs associated with falls related injuries to the states senior adults. The state, therefore, would want to utilize the Incidence Rate Ratio comparing the following of those seniors receiving services vs. those not eligible; and therefore not receiving services:

- Incidence Rate Ratio
    - Falls Rates
        - Hospitalizations
        - Emergency Department Visits
        - Skilled Nursing Facility Stays

What time period should the state set for intervention and evaluation?

The optimum period for the invention and program evaluation would be 24 months.

At what interim dates should the state evaluate outcomes?

Outcomes and benchmarks should be collected and/or review semi-annually, or every six months.

What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

Not answered at this Time; but could be addressed in the future with additional time and/or research.

Scale and Sustainability

What continuing role would your organization have in continuing the program?

NCACDC would continue to serve as the program intermediary, as well as assisting with the scaling out of the program. Specifically, NCACDC would be able to train and support additional nonprofit partners in learning and implementing the program, while also providing regular monitoring and quality assurance to ensure program integrity and continuity. NCACDC would also continue its role of identifying, securing maintaining outside investment relationships necessary to sustain the Pay for Success program model.

What role would the state have in continuing the program?

It is envisioned that as long as the program continues to reach its goals, the state would maintain its role as a guarantor for repayment of investor resources and the negotiated ROI. Ultimately, however, the state may find it beneficial to work with the federal and county governments as

well as other private sector entities vested in the program's outcomes to establish a similar program, thus cutting out the middle man or simply outsourcing the program, eliminating unnecessary cost of the Pay for Success structure.

What would the ongoing costs of the program be?

The program's ongoing cost would be mainly associated with ensuring the program's integrity and continuity. Therefore, personnel and other direct costs associated with training and certification of nonprofit program professionals; routine monitoring and quality assurance; program evaluation and improvements. Additional, cost related to outreach and education, as well as the use of technology for both internal and external communications and file maintenance. As well, there would be proportional indirect cost associated with the program.

Response to State of North Carolina Request for Information # 49-GOVPFS2015 Pay for Success RFI Nurse-Family Partnership National Service Office

August 11, 2015

Submitted by:

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Executive Summary

Nurse-Family Partnership ® (NFP) is an evidence-based, nurse home visiting program for first-time mothers living in poverty and expecting their first child. Built on the pioneering work of Dr. David Olds over four decades, NFP has consistently produced significant and sustained outcomes for families and communities as evidenced by rigorous evaluations.

We propose that North Carolina use Pay for Success (PFS) to bring NFP to scale in selected high risk communities throughout the state, which can result in improved outcomes for low-income, first-time mothers and their children. PFS can be an efficient financing mechanism for proven initiatives like the NFP where the evidence of effectiveness has been rigorously tested, expected outcomes are predictable, and a return on investment is certain within a defined period of time. An NFP PFS project can have a positive impact on government by encouraging public-private partnerships that can significantly expand proven beneficial initiatives that the State alone might otherwise not be able to afford. Such expansions, if carried out properly, should multiply NFP's positive impact and result in improved outcomes for affected families and communities, cost savings for the State, and a return on investment for investors. As the NFP National Service Office (NSO) details later in this response, ***a PFS-financed expansion of NFP has been estimated to generate state and other societal savings of approximately $5.7 for every $1 invested[1].*** By strengthening families now through NFP, we will be investing in North Carolina's future.

I. Background

PFS Project Roles & Partners

PFS projects are fundamentally about collaborative partnerships that optimize the relationships among government agencies, nonprofit service delivery organizations, and socially-minded investors in a unique configuration to deliver the most effective and efficient outcomes for vulnerable individuals, families, and communities. Ideally, a successful PFS governance structure provides 1) the State with sufficient oversight to protect the public's interest; 2) the Service Provider(s) with significant input in strategy and day-to-day operations of programs, 3) the Investors with confidence that their investment in social outcomes will be capably managed and implemented, 4) the Independent Validator with sufficient visibility into evaluation design and data to determine if outcome measurement is accurate; and 5) the Intermediary(ies) with the flexibility monitor the project and work with partners to implement strategies necessary to achieve the project's goals.

The Nurse-Family Partnership National Service Office (NSO) is uniquely positioned to serve as a programmatic intermediary for NFP implementing agencies in North Carolina to provide quality control for implementation that would guarantee a strong return on investment. The NSO has established service delivery standards; training and development modules; output metrics to monitor program fidelity; and a performance management system with the infrastructure to collect, analyze, and monitor data and outcomes at the individual, nurse, and site level that can

[1] Ted Miller, PhD. Pacific Institute for Research and Evaluation. Return on Investment in Nurse-Family Partnership Services in North Carolina. 5 May 2014.

be leveraged for scale-up in North Carolina through a PFS structure. The NSO could serve as the central contracting point with the State of North Carolina and in-turn sub-contract with service providers. In an NFP PFS structure, Service Provider(s) are NFP implementing agencies, which are responsible for delivering NFP services, managing day-to-day operations of programs, adhering to project timelines and enrollment requirements, and conducting data collection and reporting.

A strong intermediary facilitates PFS contract negotiation, project development, and stakeholder management. The intermediary also manages financial relations and is responsible for financial structuring, developing necessary financial projections, undertaking cost-benefit analysis and constructing risk models required to attract both philanthropic and impact investors. This entity leads program management, including program design, performance measurement design and service provider selection, contracting and management. After project launch, the intermediary monitors the project implementation and outcomes, working with partners to implement strategies necessary to achieve project goals.

In active PFS projects, including in South Carolina, New York and Michigan, the NSO has partnered with Social Finance (SF), a nonprofit organization dedicated to mobilizing investment capital to drive social progress, in a co-intermediary structure with NSO serving as the programmatic intermediary and SF as financial intermediary. This partnership has allowed both parties to leverage the respective expertise of each organization to maximize the success of the project and achieve the State's objectives.

There is not a one-size-fits-all governance structure for PFS projects; instead, the structure should be adapted to the strengths of partners and needs of the project. NSO encourages the State to work collaboratively with the PFS stakeholders to design the structure that best fits the goals of North Carolina.

Organizational Experience with Government Entities

The NSO has extensive experience in working with government entities, particularly over the last 13 years since large-scale national replication of the model began. Our experience reflects work at the federal, state, and local levels to develop collaborative partnerships with public administrators and elected officials, establish and expand public funding streams in support of NFP, and cultivate public-private partnerships between government, foundations, and private sector industry.

At the federal level, since 2009 in particular, NSO has partnered with the Health Resources and Services Administration (HRSA) of the U.S. Department of Health and Human Services to implement the Maternal, Infant and Early Childhood Home Visiting Program (MIECHV). Similarly, a portion of MIECHV funding for tribal communities is administered by the Administration for Child and Families, with whom NSO has also worked extensively given its programming across the country with six tribal communities, including the Eastern Band of Cherokee Indians in North Carolina.

At the state level, NSO has partnered with a variety of departments and agencies as its programming spans 43 states and 1 territory. Typically, NSO has worked with a state's

Department of Health and Human Services, Department of Education, and Department of Social Services, among others, as those departments have administered state and other funds to support NFP programming. In North Carolina, NSO works closely with the Division of Public Health within the Department of Health and Human Services because the Department is the lead state agency that oversees federal MIECHV funding, and the Division is responsible for oversight of several home visiting programs, including Nurse-Family Partnership.

At the local level, NSO's relationships and experience are equally as broad. In North Carolina, 10 of 14 implementing agencies are public health departments; therefore NSO works closely with local health directors and health department staff, boards of health, boards of county commission, and county managers and staff. In three counties – Buncombe, Cleveland, and Mecklenburg, respectively – the implementing agencies receive local county funds to implement NFP. The NSO continues to work with other counties interested in supporting NFP, regarding funding and growth opportunities.

Implementation and Evaluation Experience

Over a 38-year period, ongoing evaluations of the NFP model, including three well-designed randomized controlled trials that began in 1977, 1988, and 1994 with different populations and geographies, have demonstrated that NFP achieves significant and sustained outcomes for families at greatest risk for poor health, education and employment outcomes. Independent analyses of NFP evaluations have validated NFP's track record. For example, in an August 2011 report, the non-profit, non-partisan Coalition for Evidence-Based Policy evaluated the eight models then available to states through the Maternal, Infant and Early Childhood Home Visiting (MIECHV) Program. NFP was the only early childhood model to receive the highest "top tier" ranking, earning a "strong" level of confidence indicating the program will produce meaningful improvements for society.

In addition to these evaluations, the NSO has invested in a well-designed performance management information technology system that allows the NSO to access and analyze outcome metrics for the implementing agencies that replicate NFP throughout the country on a real-time basis.

II. Outcomes

Outcome Selection

In a PFS project, payment should be based on outcomes that result in significant public and social benefit. The impact of selected outcomes should be demonstrated through prior rigorous evaluation. Historical data or access to administrative data should be available on selected outcomes to inform definition of the outcome and payment terms. It is also important that outcomes are observable throughout the project and measurable within a reasonable time frame following the service delivery period. Outcomes of the NFP program span the spectrum of fiscal to social benefit, impacting Medicaid cost savings to quality of life, and occur throughout the life course, from birth to age 18.

Based on rich outcomes data available from 30 evaluations conducted on NFP and national replication data, the NSO is able to predict that, on average, enrolling low-income families in NFP in North Carolina will result in[2]:

Table 1. Expected Life Status and Financial Outcomes for NFP in North Carolina

Outcome	Change
Smoking During Pregnancy	23% reduction in tobacco smoked
Complications of Pregnancy	26% reduction in pregnancy-induced hypertension
Preterm First Births	18% reduction in births below 37 weeks gestation (20.5 fewer preterm births per 1,000 families served)
Infant Deaths	58% reduction in risk of infant death (3.3 fewer deaths per 1,000 families served)
Closely Spaced Second Births	30% reduction in births within 2 years postpartum
Very Closely Spaced Births	23% reduction in births within 15 months postpartum
Subsequent Birth Rate	30% reduction in second teen births (70.6 fewer children per 1,000 families served within 2 years postpartum & lifetime)
Subsequent Preterm Births	28.2 fewer subsequent preterm births per 1,000 families served
Breastfeeding	12% increase in mothers who attempt to breastfeed
Childhood Injuries	36% reduction in injuries treated in emergency departments, ages 0-2
Child Maltreatment	30% reduction in child maltreatment through age 15
Language Development	38% reduction in language delay; 0.14 fewer remedial services by age 6
Youth Criminal Offenses	44% reduction in crimes and arrests, ages 11-17
Youth Substance Abuse	51% reduction in alcohol, tobacco, & marijuana use, ages 12-15
Immunizations	22% increase in full immunization, ages 0-2
TANF Payments	7% reduction through year 9 post-partum; no effect thereafter
Food Stamp Payments	8% reduction through at least year 10 post-partum
Person-months of Medicaid Coverage Needed	7% reduction through at least year 15 post-partum due to reduced births and increased program graduation
Costs if on Medicaid	7% reduction through age 18
Subsidized Child Care	Caseload reduced by 3.4 children per 1,000 families served

Availability of NFP Performance Measures for Outcomes

The NFP National Service Office maintains an extensive electronic records system that allows evaluation of client characteristics, home visit encounters, and the early program outcomes identified in Table 1.

Utilizing a standardized set of electronic forms, NFP Nurse Home Visitors update records following each home visit. From these data, assessments of program fidelity and outcomes related to birth, child health and development, and mother's life course development can be determined. The NSO would work closely with the State to develop any necessary enhancement to the current data system to capture additional data items important to the State for a PFS project.

[2] Ted Miller, PhD. Pacific Institute for Research and Evaluation. Life Status and Financial Outcomes of Nurse- Family Partnership in Pennsylvania. 5 May 2014.

Table 2 below highlights the program outcomes currently captured through the NSO data systems. In addition to the data NSO collects, obtaining access to the State's birth certificate, Medicaid claim, encounter data, or other administrative State data would provide an opportunity to validate NFP outcomes for a PFS project.

Table 2: NFP Outcomes Tracked by NSO Data Systems		
Birth Outcomes		
Initiation and Frequency of Prenatal Care	Incidence of Gestation Diabetes or Hypertension	Incidence in and Reduction of Tobacco, Alcohol, or other Substance Use
Incidence of Premature Births	Incidence of Low Birth Weights	Incidence and Duration of Neonatal Intensive Care Unit Utilization,
	Incidence of Infant Mortality	
Child Health and Development		
Initiation and Duration of Breastfeeding	Completion of Child Immunizations	Frequency of Baby Check-Ups and Other Health Care Utilization
Attainment of Communication	Psychomotor Developmental Benchmarks	
Mother's Life Course Development		
Educational Attainment	Employment Status	Governmental and Community Assistance Utilization
Subsequent Pregnancies	Emergency Department or Urgent Care Visits	Reports of Child Abuse or Neglect
	Reports of Intimate Partner Violence	

Utilizing site-level population descriptors and client-specific demographic characteristics, program effectiveness can be appraised through contrasts with appropriately adjusted comparison samples. Coupled with cost-benefit considerations, the social impact of the implementation or expansion of the NFP program in a given community can be readily determined through a variety of evaluation methodologies. The NSO is confident that NFP has the evidence base and the access to measureable outcomes data necessary to develop a PFS project that will attract impact investors, meet the State's objectives, and meaningfully change the lives of North Carolina families.

Opportunities to Achieve Savings and Benefits at Multiple Levels of Government

The NSO has gained some insight into the potential for expanding PFS projects at the county and local government level through feasibility studies that are underway in California, in particular with the City and County of San Francisco, and other jurisdictions around the country. With NFP producing savings to government at the local, state and federal levels[3], there may be an opportunity for partnership with local and state government jointly serving as back-end payors in a PFS deal.

A NFP PFS project could be highly effective in supporting and scaling NFP while also bringing cost savings to the State of North Carolina. Independent analyses by the Brookings Institution,

[3]Ted Miller, PhD. Pacific Institute for Research and Evaluation. Cost Savings of Nurse-Family Partnership in North Carolina. 5 May 2014.

RAND Corporation and Washington State Institute for Public Policy have documented that NFP produces a positive return on investment for society and for government. A recent model developed by Dr. Ted R. Miller of the Pacific Institute for Research and Evaluation estimates a benefit-cost ratio for NFP of 5.7 to 1, when taking into consideration all State and local government budgetary savings (including reduced TANF payments, increased Medicaid graduation, lower costs if on Medicaid, less remedial education, fewer cases of child abuse, fewer arrests, fewer crimes, fewer substance abusers, etc.) and other societal benefits that do not accrue to the government's budget, but bring real value to constituents and communities (including gains in wages and work, quality of life, etc.). Dr. Miller's analysis predicts that when NFP serves a North Carolina family, government entities at the local, state and federal levels each save money.

In North Carolina, NFP costs an average of $7,660 per-family served. This figure represents 100% of costs to deliver NFP services. On average, North Carolina families are enrolled in the program for 500 days and receive 23.3 visits. Costs are distributed as follows: 31% are incurred prenatally, 42% in the first year after birth, and the remaining 27% in the child's second year.

State budgetary savings generated by NFP are in line with the cost. By the time a child reaches age 18, the State government budgetary benefit per family served averages $7,586 when accounting for offsetting expenditures for Medicaid, criminal justice, special education and other forms of government assistance such as TANF. However, NFP also generates other societal benefits (e.g., gains in wage work, household work, and quality of life of NFP families and of people who avoid becoming crime victims). When non-budgetary societal benefits are considered with direct budgetary cost savings, NFP generates $42,835 of State benefits per family enrolled.

III. Measurement and Payment

Metrics Selection

A number of considerations should be taken into account when determining outcome metrics, including the state's specific policy objectives, the NFP evidence base and assessment of trends within the State's baseline data. Through previous PFS project development in other states, the NSO has identified the following three performance measures as potential options to serve as proxies for NFP benefits and to evaluate the performance of an NFP PFS Project: (1) reduction in preterm births; (2) increased inter-conception health as measured by improved birth spacing; and (3) reduced hospitalizations for child injuries. The NSO would welcome the opportunity to work closely with the State to align potential metrics with policy objectives.

Intervention and Evaluation Period

PFS projects are fundamentally about collaborative partnerships that optimize the relationships among government agencies, nonprofit service delivery organizations, and socially-minded investors in a unique configuration to deliver the most effective and efficient outcomes for vulnerable individuals, families, and communities. Contract duration is an important element to consider in balancing the unique needs of the various parties. The PFS project must be short enough to allow for a sufficient return for investors while providing adequate time for service

delivery, evaluation and repayment. Most PFS contracts executed to date in the U.S. have been structured over 5 to 7 years, which is a workable timeframe to permit evaluation of NFP results. NFP service delivery lasts, on average, between 1.25 and 1.5 years. A PFS project which enrolls new families over a four-year timeframe, for example, could have a service delivery period of six years, allowing one year for evaluation.

IV. Program Continuation

NSO's Role in Program Expansion

The NSO was established to support communities in replicating NFP services with fidelity to the evidence-based model. To achieve this goal, the NSO has established a replication model for independent implementing agencies to use in scaling NFP throughout the country. The NSO supports implementing agencies by providing tailored education and development programs for Nurse Home Visitors and Supervisors, and within the context of a robust quality framework, deploying Nurse Consultants to monitor model fidelity and drive continuous improvement. The NFP NSO has established service delivery standards, developed Visit-by-Visit guidelines, designed on-line and on-site training programs for NFP nurses, and created an Evidence-to- Outcomes (ETO) system that collects, analyzes, and monitors data and outcomes at the individual, nurse, and site level. This business model has allowed the NSO to successfully expand NFP services to reach families in a network of 253 sites, 560 counties, in 43 states, one U.S. territory, and six tribal entities, with over 225,000 families served to date.

The NSO has the operational infrastructure and relationships in place to expand NFP's implementation in North Carolina. In 2000, the program began to serve low-income, first-time mothers in Guilford County. Since then, a robust public-private partnership has developed, led by The Duke Endowment and Kate B. Reynolds Charitable Trust. The program now serves eligible mothers in 24 North Carolina counties.

While the present funding supporting North Carolina's NFP programs represents a strong endorsement of the program's need and value, this funding is insufficient to meet North Carolina's need. In 2013, there were approximately 20,454 first-time Medicaid births statewide. With current funding, NFP is only able to reach 7.8% of the eligible target population.

PFS presents a new opportunity to serve more eligible mothers. Based on volume of eligible clients, the program could be readily scaled in the major urban markets and their respective counties where programming currently exists: 1) Asheville (Buncombe); 2) Charlotte (Mecklenburg); 3) Greensboro (Guilford); 4) Raleigh (Wake); and 5) Winston-Salem (Forsyth). In those markets alone in 2013, there were 5,790 first-time Medicaid births. Currently, NFP is only able to reach 13% of eligible mothers in those markets, or 730 mothers. Scaling NFP in those markets to reach 25% of the eligible population would add 29 nurse home visitors, allowing NFP to serve a total of 1,448 mothers at any point in time.

The NSO also envisions expansion of NFP to new markets with great unmet need, specifically Brunswick, Cumberland, New Hanover, and Onslow counties. In those areas, there were 1,536

first-time Medicaid births in 2013. 15 nurse home visitors could serve 25% of the eligible population.

PFS offers a viable strategy for expansion in this economic context, given the demonstrated interest of availability of private commercial investors. As NFP grows to serve 25-50% of the eligible population in any community, the program may begin to transform communities and demonstrate a positive impact on population health across two generations.

NFP NSO was established to support communities in replicating the NFP program with fidelity through contracts with independent, local implementing agencies. The NSO contracts with and provides support to states and agencies that deliver the NFP program. The NSO is organized around four primary functions: a) nurse training and development; b) state/site development; c) monitoring fidelity and continuous quality improvement; and d) policy, advocacy, and communications.

Under a PFS contract, the NSO role would include its current responsibilities, in addition to serving as an operational or programmatic intermediary. In this role, NSO would provide PFS funds to the implementing agencies, and have more implementation oversight that would guarantee a strong return on investment. The NSO could serve as the central contracting point with the State of North Carolina and in-turn sub-contract with NFP implementing agencies, as well as subcontract with a determined financial intermediary.

Role of the State in Program Continuation

Upon successful completion of a PFS contract by NFP, NSO would seek support from North Carolina to sustain NFP services. The state could potentially use Medicaid, TANF or North Carolina State funds to pay for the ongoing cost of NFP services, with federal Medicaid funds available at the 40% match to better leverage State funds. For any philanthropic funds invested in the North Carolina PFS project, the state could potentially create an option for philanthropy to reinvest success payments from North Carolina into ongoing NFP services.

Ongoing Program Costs

In North Carolina, NFP costs an average of $7,660 per-family served. Higher program costs per family are incurred during a PFS scaling process, when nurses are hired but have not yet reached efficiency to serve a full caseload. The PFS project would be used to pay for the start-up and ramp-up costs associated with scaling, which would allow North Carolina to assume only the ongoing cost or "run rate" upon successful performance in the PFS project. Once the PFS project grows the NFP program in a given area, estimated run rate costs are 84% of PFS project costs.

VI. Conclusion

The NSO is excited that the State of North Carolina is pursuing PFS projects, and looks forward to the potential opportunity to work with the State to use the innovative power of PFS financing to advance early childhood development policy objectives. NSO is confident in its ability to effectively develop and execute a NFP PFS Project in North Carolina that aligns the interests of the State, private investors, NFP implementing agencies, and first-time, low-income mothers.

The NSO is flexible in our approach to PFS financing and willing to discuss alternatives to this response to best fulfill the State's preferences and objectives.

With PFS deal construction well underway in South Carolina, New York State and Michigan, along with PFS feasibility analyses currently being conducted in Austin, TX, and completed in areas such as San Francisco, CA, Newark, NJ and Memphis, TN, Nurse-Family Partnership NSO has insight into the intricacies of developing an NFP PFS contract. Our work with Social Finance in three states has highlighted clear areas of deal standardization such as financial modeling and performance metrics, which can be modified to meet the State of North Carolina's preferences.
Faster development timelines through standardization are a key component of developing PFS as a viable business model. This will also help reduce time pressure on government officials charged with shepherding PFS projects and decrease required grant support from philanthropies, all of which enhance the viability of PFS.

James B. Duke
THE DUKE ENDOWMENT

August 4, 2015

State of North Carolina
Office of State Budget and Management
116 West Jones Street, Fifth Floor
Mail Service Center 20320
Raleigh, NC 27699-0320

Re: Nurse-Family Partnership National Service Office's Response to State of North Carolina PFS RFI 49-GOVPFS2015

Dear Ms. Dickerson,

On behalf of The Duke Endowment, I am pleased to provide this letter of support for Nurse-Family Partnership's (NFP) response to the State of North Carolina's Request for Information to identify innovative solutions from organizations that could serve a leading role in a Pay for Success contract.

The Duke Endowment is a private foundation based in Charlotte, North Carolina, established in 1924 to help the citizens of North Carolina and South Carolina along mental, physical and spiritual lines. As part of our mission, we provide support to health care providers across the two states and help children who are involved in the child welfare system.

For the past seven years, the Endowment has invested almost $20,000,000 in North Carolina and South Carolina to expand Nurse Family Partnership (NFP), an evidence-based home visitation program serving first-time, low-income mothers and their families. In North Carolina, the program currently reaches more than a quarter of the state's 100 counties with the capacity to serve approximately 1,000 mothers annually.

The Duke Endowment is pleased to support Nurse-Family Partnership's response to the State of North Carolina's Pay for Success RFI. Please feel free to reach out if I can provide any additional information.

Sincerely,

Rhett N. Mabry
Vice President

State of North Carolina
Pay for Success RFI
OSBM – Commodity #91887
Parents as Teachers National Center, Inc.

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Attachments:

49-GOVPFS2015: NORTH CAROLINA PAY FOR SUCCESS
REQUEST FOR INFORMATION

EXECUTIVE SUMMARY

Parents as Teachers National Center (PATNC) is proposing to expand evidence-based Parents as Teachers home visiting services to low-income, high-needs families in three North Carolina counties: Northampton, Scotland and Vance with the goal of engaging parents and helping them understand their important role in the development and educational success of their children. Participation in Parents as Teachers will result in measurable improvements in school readiness, thus reducing the need for remedial education; early identification and remediation of health and developmental delays, thus reducing special education costs; and reduction in instances of child abuse and/or neglect, and reducing the costs of protective services and family reunification services.

Intensive dosage of intervention services (twice monthly to weekly home visits) is estimated to cost $4,700 - $5,000 per family per year, with the intent to offer services to families for at least two years. The project, depending on scale, will require investments ranging from $970,000 per year of intervention for 200 families to $1,940,000 per year of intervention for 400 families. Separate funding of $1 million over the life of the project may be allocated for an independent evaluator to verify that the benchmarks and outcomes are achieved to satisfy repayment to the investors. The project will produce cashable savings and wellbeing benefits for the State.

BACKGROUND

The federally recognized Parents as Teachers (PAT) home visiting model includes monthly personalized home visits, (twice monthly or weekly for families with two or more at-risk characteristics), monthly group connections, continuous developmental and health screenings, and ongoing connections to resources that help the family reach their goals and address their needs. Home visitors build trusting and respectful relationships with families, which help them learn about the families' needs and in turn help them develop an individualized set of goals. PAT programs are designed to provide at least two years of services to enrolled families. Local PAT programs are funded and housed by a variety of organizations including school districts, social service agencies, health departments, and abuse prevention agencies.

The vision of Parents as Teachers is that "all children will learn, grow, and develop to realize their full potential." The mission of Parents as Teachers is to "provide the information, support and encouragement that parents need to help their developing children develop optimally during the crucial early years of life."

The program goals are:

- *Increase parent understanding of child development.*
- *Improve parenting practices.*
- *Early detection of developmental delays and health issues.*
- *Prevention of child abuse and neglect.*
- *Increased school readiness and school success.*

The non-profit Parents as Teachers National Center (PATNC) was created in 1987 to oversee the expansion of the home visiting model. Today, PATNC provides the curricula, training and certification, and technical assistance for all the local PAT programs. In 2014, PATNC was recognized by the Social Impact Exchange as one of the 100 top performing non-profits, receiving the S&I 100 designation.

PATNC has a long history of successfully managing federal grants and contracts at multiple locations. Currently, PATNC manages five major grants and contracts.

- PATNC was recently selected as the Lead Agency for the $4 million, five-year Salt Lake County Maternal and Child Health PFS project. Salt Lake County has been a national leader in the Pay for Success movement, and selected Parents as Teachers for this project following an intensive national competition for an effective and measurable approach to improvements in child and maternal health and school readiness.
- A $5 million contract with the Department of the Interior, Bureau of Indian Education to manage the Family and Child Education (FACE) project at 44 BIE schools in six states. The project currently serves approximately 2,000 children and parents. This is the 25th year that the National Center has been managing the FACE project.
- A $17.25 million, five-year "Investing in Innovations" grant from the U.S. Department of Education. This project expands the FACE program to an additional 20 BIE schools serving approximately 1,000 families living on reservations.
- The National Center is also the grantee for the HRSA-funded Maternal, Infant, Early Childhood Home Visiting program for both Wyoming ($5.5 million for four years) and Oklahoma ($3 million for two years).

For all of these projects, PATNC was responsible for project design and implementation and each grant includes a significant evaluation component.

PATNC has a long collaboration with Smart Start North Carolina. Since 1989, PAT has had a PAT presence in North Carolina. Last year, 49 local PAT programs served 3,811 families with 4,976 children ages birth to five years. PATNC is proposing to partner with Local Implementing Agencies (LIAs) to implement a Maternal and Child Health PFS project to increase children's school readiness and to reduce the need for remedial and special education services.

OUTCOMES TO PURSUE

With "pay for success" financing, many more North Carolina at-risk children and families could benefit from Parents as Teachers, thereby resulting in improved parent and child outcomes—specifically, improved kindergarten readiness, reduced remedial and special education placements and fewer incidences of child abuse and neglect -- while also reducing the fiscal burden.

The target population PATNC proposes to serve is high-needs, low-income families with children ages prenatal to six years in three of the fifteen counties where 25% or more of the families have income below the federal poverty level and there are no existing PAT programs. These include Montgomery, Richmond, Scotland, Vance, Edgecomb, Blanden and Warren Counties. In eight other counties with 25% or more of the families with incomes below the federal poverty level PATNC is proposing to expand the availability of PAT services in Chowan, Columbus, Duplin, Hertford, Hyde, Northampton, Robeson and Swain counties.

The proposed intervention is the federally designated, evidence-based PAT home visiting model. PATNC is recommending that the PFS project focus services in three counties:

Northampton County – 26.3% poverty rate

- Percentage of students enrolled in free and reduced lunch, 98.2% in 2011-2012
- Students experiencing homelessness, three in Northhampton County Schools in 2011-2012
- Four-Year cohort graduation rate, 71.4% in 2011-2012
    - The state four-year cohort graduation rate for 2011-2012 is 80.2%
- 2009 Teen pregnancy
    - Total/Rate per 1,000 - 30

Scotland County – 32.3% poverty rate

- Percentage of students enrolled in free and reduced lunch, 79.8% in 2011-2012
- Students experiencing homelessness, 76 in Scotland County Schools in 2011-2012
- Four-Year cohort graduation rate, 76.2% in 2011-2012
    - The state four-year cohort graduation rate for 2011-2012 is 80.2%
- 2009 Teen pregnancy
    - Total/Rate per 1,000 - 65

Vance County – 28.0% poverty rate

- Percentage of students enrolled in free and reduced lunch, 95.2% in 2011-2012
- Students experiencing homelessness, 57 in Vance County Schools in 2011-2012
- Four-Year cohort graduation rate, 68.2% in 2011-2012
    - The state four-year cohort graduation rate for 2011-2012 is 80.2%
- 2009 Teen pregnancy
    - Total/Rate per 1,000 - 50

Numerous studies illustrate not only the social benefits but also the monetary benefits of high quality early childhood programs. As a model that is delivered by a wide variety of third party organizations, including school districts, Early Head Start/Head Start grantees, hospitals, and other community agencies, Parents as Teachers is a uniquely scalable strategy to increase children's school readiness and success. Currently, Parents as Teachers is meeting a small fraction of the overall need to provide high quality parent education and engagement services.

According to 2013 Kids Count North Carolina:

- In 2012 there were 619,940 children age birth to four years in the state
- 28% of children age birth to five years live in poverty
- 58% of three and four year old children – of 148,000 children - do not attend preschool
- Of these 148,000 pre-school age children, 69% live in households with incomes below 200% of poverty, or 94,000 children

Evidence from multiple evaluations demonstrates that the Parents as Teachers home visiting model is uniquely positioned to improve outcomes for at-risk children and families. Several federal evidence-based registries have reviewed the available research and have designated PAT as an evidence-based home visiting model. Examples of these registries include Health Services and Resources Administration's (HRSA) list of approved, evidence-based models for implementation of the Maternal, Infant, Early Childhood Home Visiting program (MIECHV) and the Substance Abuse and Mental Health Services Administration's (SAMHSA) National Registry of Evidence-based Programs and Practices.

With a fundamental value of serving all high-needs families, PAT serves the broadest range of families of any of the national home visiting models and has the fewest restrictions about family enrollment. As such, PAT programs serve families with children from prenatal through kindergarten. Additionally, PAT has been the subject of four randomized controlled trials and seven peer-reviewed published outcome studies that prove the effectiveness of participation in PAT to achieve outcomes for both families and children.

School Readiness Outcomes

- Studies of Parents as Teachers have shown that, among other things, Parents as Teachers combined with quality preschool education reduced the achievement gap between poor children and more advantaged children at kindergarten entry. (Zigler, 2008)
- Language acquisition and social/emotional development are the key indicators of school readiness. Repeated studies indicate that children from low-income families can have a vocabulary that is half of what other children have at kindergarten entry. Five separate evaluations of PAT between 1985 and 2009 have shown that children whose families participate in PAT "…score higher on measures of achievement, language ability, social development, prosocial behavior, persistence in task mastery and other cognitive abilities."

(Pfannenstiel & Seltzer) Two other studies in 2002 and 2008 demonstrate that "children (who have two years of PAT) score higher on kindergarten readiness tests and standardized measures of reading, math and language in elementary grades." (Zigler, Pfannenstiel & Seitz)

- Several scientifically valid studies in diverse setting have shown that PAT parents engage in more home literacy activities and that children are better prepared at kindergarten entry.

"Retaining a student in the same grade is a costly educational intervention, if students (as intended) spend an additional year in full-time public education as a result. Given average per pupil spending of roughly $10,700 (the most recent national estimate), the direct cost to society of retaining 2.3 percent of the 50 million students enrolled in American schools exceeds $12 billion annually. This estimate excludes the cost of any remedial services provided specifically to students repeating a grade, as well as any earnings foregone by retained students due to their delayed entry into the labor market." (Brookings Institute, 2012)

Special Education

A core component of PAT services is screening for vision, hearing, health and developmental – including social/emotional development - issues and delays are. PAT parent educators are trained to then assist the parents in getting additional assessments of the issues and early intervention services as needed.

Last year the North Carolina PAT affiliates screened 3,590 children for hearing, vision, health and developmental delays. Of these children, 337 were referred for further assessment and follow-up services. One PAT evaluation found that "more than half of the children with observed developmental delays overcame them by age three." (Pfannenstiel, Lambson & Yarnell, 1991)

A significant portion of the increase in special education enrollment can be attributed to greater identification of students with disabilities from birth to age five and these students' participation in IDEA (Individuals with Disabilities Act) preschool and early intervention services. (New America Foundation). Based on the most recent national information available (Chambers et al., 2002), for the 1999–2000 school year, per pupil special education spending averaged $12,474, as compared with $6,556 for students not in special education. This is more than double (in constant dollars) the average special education expenditure from the late 1960s, when it was first calculated. North Carolina ranked 38th in the percentage of children ages 3 – 21 in special education. (Special Education Expenditures, Revenues and Provision in California, 2012) The national average by states is 7.9 percent, while the percentage in North Carolina is 7.5 percent.

In a June 20, 2015 editorial, The News & Observer reported that, "The state gives local school districts and charter schools a set amount of money per SWD in the district or school. In 2014-15, that amount was $3,926.97. However, state law also arbitrarily caps per student funding at

12.5 percent of the student population. The cap was established in the early 1980s amid panic after the passage of the federal Individuals with Disabilities Education Act as a way to limit expenditures and deter over-identification. Three decades later, it hasn't changed.

The cap is unacceptably low and effectively penalizes districts with higher percentages of students with disabilities. In 2013-14, 13.2 percent of public school students statewide were identified as SWD. Eighty-two out of the 115 school districts were over the 12.5 percent cap. In 37 districts and 32 charter schools, students with disabilities were over 15 percent of the total student population." Furthermore, the New America Federal Education Budget project data shows that IDEA Section 619 Preschool Program Funding actually decreased between 2010 and 2011 from $11,331 million to $11,133 million, even though enrollment increased.

Child Abuse /Neglect

An economic analysis released by Prevent Child Abuse America (PCAA) in May 2012 estimated the annual nationwide cost of child abuse and neglect at $80,260,411,087 (2012 dollars). These costs include the direct, short-term costs of immediate medical attention, mental health services, the child welfare system, and law enforcement required to address child abuse and neglect each year. The indirect, long-term costs include special education, early intervention, emergency housing, long-term mental health care, long-term physical health care, juvenile delinquency, the adult criminal justice system, and lost worker productivity costs related to children and adults who have been abused. The report estimates North Carolina's annual share is $2,057,467,000 in 2012 dollars.

Three independent evaluations of PAT have confirmed that participation in the program reduces the incidences of child abuse and/or neglect, even among low-income adolescent parents. "Overall, when compared to older mothers, PAT had a stronger, positive impact on teenage mothers' behaviour." (Wagner, Iida & Spiker, 2001) In a 1991 study of PAT there were only two documented cases of abuse or neglect among 400 families over a three year period, significantly below the state average. (Pfannenstiel, Lambson & Yarnell, 1991)

Estimate Costs and Benefits

The service costs for Parents as Teachers are measured by the family unit for a 12-month period. The family may include more than one age-eligible child. For high needs families requiring more frequent services, the estimate is $4,700 - $5,000 per family for 12 months of services, based on bi-weekly to weekly home visits.

The Washington State Institute of Public Policy estimates the monetary benefits of Parents as Teachers at $4,505 with a benefit to cost ratio of $2.69. This benefit-cost ratio was determined from monthly visits. The families in a PFS project would receive twice monthly visits or weekly

visits based on the needs of the families and available support services. However, the WSIPP detailed monetary benefit estimates to the participants, and taxpayers, along with benefits from health insurance and reductions in taxation for services. A copy of the report is attached.

In a study issued by the State of New Mexico about effective programs in reducing child maltreatment and out-of-home placement, the Child Protective Services Division reported that PAT produced $4,561 in benefits to participants, taxpayers and other beneficiaries with a benefit to cost ratio of $1.54.

Please note that Parents as Teachers serves families with children ages prenatal through kindergarten so numerous families will have multiple age-eligible children which greatly increases the benefit to cost and the return on investment.

A. New Program

While PAT is not a new program, PATNC proposes to expand services to unserved communities with high-needs, low-income populations.

PATNC's original purpose was to replicate the PAT home visiting model outside of Missouri. As such, PATNC has nearly 30 years of experience in replicating the program in a wide range of diverse communities.

In addition to the initial training of Parent Educators, PATNC also researches and develops the curricula and materials used by Parent Educators in the local programs to serve families. In this way, PATNC promotes implementation that is faithful to the model in order to achieve the desired outcomes for parents and children.

For this project, PATNC will:

- Serve as the Lead Agency and the fiscal agent
- Identify Local Implementing Agencies (LIA) in the selected communities
- Provide training for LIA staff including Parent Educators and program supervisors
- Provide technical assistance to the LIAs to insure quality implementation
- Collaborate with the Evaluator in data collection, as needed
- Submit project report to the Investors and governmental entities

PATNC's ability to implement and scale up the intervention is enhanced by strategic partnerships with a variety of community-based organizations and the existing PAT programs. The 49 existing PAT affiliates in North Carolina are sponsored by a wide range of organizations.

- School Districts
- Community Development Association
- County Extension Services
- Local Health Departments

- Family Resource Centers
- YMCA
- Smart Start
- NC Partnership for Children
- Head Start Programs
- Easter Seals
- Children's Home Society

The ongoing costs are determined by the scale of the project. The Utah High Quality Preschool Project PFS project is a $7 million, five-year project for 3,700 low-income children. PATNC's School Readiness/Home Visiting PFS project with Salt Lake County is $4 million for five years for 200 low-income families with infants and toddlers. Another $1 million is allocated for the project evaluation. PATNC estimates the cost for intensive year-round services – twice monthly to weekly home visits – is approximately $4,700 - $5,000 per family.

> *"In June of 2013, United Way of Salt Lake announced the creation of* ***the country's first-ever pay for success program designed to expand access to early childhood education*** *for at-risk children in Utah.*
>
> *The Utah High Quality Preschool Program delivers a high impact and targeted curriculum to increase school readiness and academic performance among 3 and 4 year olds. As a result of entering kindergarten better prepared, it is expected that fewer children will use special education and remedial services in kindergarten through 12th grade, which results in cost savings for school districts, the State of Utah and other government entities.* ***The first $1 million investment in this program enabled 600 at-risk children to have access to high-quality preschool programs.***
>
> *Private capital from J.B. Pritzker and Goldman Sachs financed the expansion of the Utah High Quality Preschool program." (United Way of Salt Lake website)*

In other states, the role of the state is the passage of enabling legislation and appropriations to support the administration of PFS projects by the local municipalities and counties. For example Utah H. B. 96 established the School Readiness Board "which provides grants to certain early childhood education programs, and may enter into certain contracts with private entities to provide funding for early childhood education programs for at-risk students."

Other provisions of H. B. 96 include:

- Creates the School Readiness Restricted Account;
- Creates the School Readiness Board (board) to negotiate contracts with private entities to fund certain early childhood education programs and award grants to certain early childhood education programs;
- Details components of a high quality school readiness program that may be funded through a results-based contract between the board and private entities;
- Describes a home-based educational technology program that may be funded through a results-based contract between the board and a private entity or entities;

- Requires the State Board of Education and the Department of Workforce Services to:
    - Solicit proposals from qualifying early childhood education programs for quality school readiness grants;
    - Make recommendations to the board to award grants to qualifying early childhood education programs;
    - Monitor and evaluate the programs; and
    - Develop policies and enact rules;
    - Requires the board to award grants to qualifying early childhood education programs based on recommendations of the State Board of Education and the Department of Workforce.

Services and other criteria;

- Requires the Governor's Office of Management and Budget to staff the board;
- Requires the repayment to private entities to be conditioned on meeting performance outcomes set in the contract;
- Requires an independent evaluation of the performance outcomes;
- Allows the board no more than $15,000,000 of outstanding obligations at any one time;
- Exempts the awarding of a results-based contract from general procurement 39 requirements; and establishes reporting requirements.

(H. B. 96)

Washington State Institute for Public Policy

Parents as Teachers

Benefit-cost estimates updated July 2015. Literature review updated April 2012.

Parents as Teachers (http://www.parentsasteachers.org/) is a home visiting program for parents and children with a main goal of having children ready to learn by the time they go to school. Parents are visited monthly by parent educators with some college education. Visits typically begin during the mother's pregnancy and may continue until the child enters kindergarten.

Benefit-Cost Summary

Program benefits	
Participants	$4,407
Taxpayers	$2,509
Other (1)	$1,008
Other (2)	($749)
Total	$7,175
Costs	($2,671)
Benefits minus cost	$4,505

Summary statistics	
Benefit to cost ratio	$2.69
Benefits minus costs	$4,505
Probability of a positive net present value	67 %

The estimates shown are present value, life cycle benefits and costs. All dollars are expressed in the base year chosen for this analysis (2014). The economic discount rates and other relevant parameters are described in our technical documentation.

Detailed Monetary Benefit Estimates

Source of benefits	Benefits to: Participants	Taxpayers	Other (1)	Other (2)	Total benefits
From primary participant					
From secondary participant					
Crime	$0	$211	$606	$107	$924
Child abuse and neglect	$1,193	$375	$0	$190	$1,757
K-12 grade repetition	$0	$33	$0	$17	$50
K-12 special education	$0	$93	$0	$47	$140
Health care (smoking)	$72	$457	$401	$229	$1,160
Property loss (alcohol abuse/dependence)	$1	$0	$1	$0	$2
Labor market earnings (child abuse & neglect)	$3,140	$1,340	$0	$0	$4,480
Adjustment for deadweight cost of program	$0	$0	$0	($1,338)	($1,338)
Totals	**$4,407**	**$2,509**	**$1,008**	**($749)**	**$7,175**

We created the two "other" categories to report results that do not fit neatly in the "participant" or "taxpayer" perspectives. In the "Other (1)" category we include the benefits of reductions in crime victimization, the economic spillover benefits of improvement in human capital outcomes, and the benefits from private or employer-paid health insurance. In the "Other (2)" category we include estimates of the net changes in the value of a statistical life and net changes in the deadweight costs of taxation.

Detailed Cost Estimates

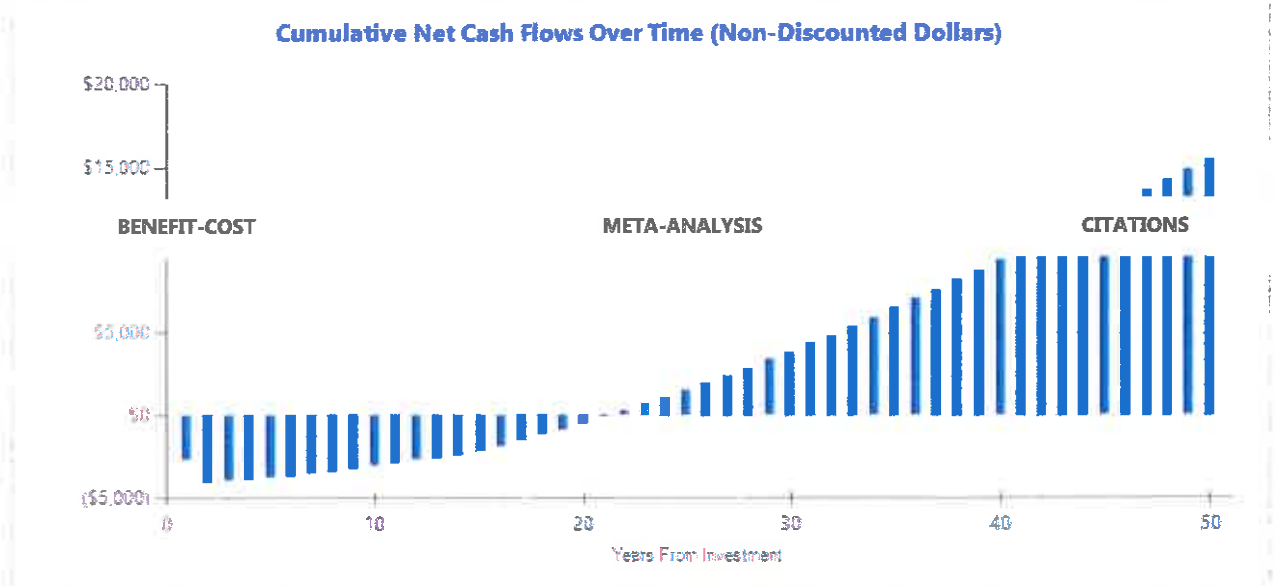
	Annual cost	Program duration	Year dollars
Program costs	$1,450	1.5	2003
Comparison costs	$0	1.5	2003

Summary statistics	
Present value of net program costs (in 2014 dollars)	($2,671)
Uncertainty (+ or - %)	10 %

Average annual cost provided by Parents as Teachers National Center in 2003. Average length of program estimated by WSIPP, based on weighted average of treatment length reported in the original research studies. WSIPP also communicated with Nicole Thomson at the National Center (July 2014), who provided assistance in gathering some details not reported in the original studies.

The figures shown are estimates of the costs to implement programs in Washington. The comparison group costs reflect either no

treatment or treatment as usual, depending on how effect sizes were calculated in the meta analysis. The uncertainty range is used in Monte Carlo risk analysis, described in our technical documentation.



Meta-Analysis of Program Effects

Outcomes measured	Primary or secondary participant	No. of effect sizes	Treatment N	Unadjusted effect size (random effects model)		Adjusted effect sizes and standard errors used in the benefit-cost analysis					
						First time ES is estimated			Second time ES is estimated		
				ES	p-value	ES	SE	Age	ES	SE	Age
High school graduation	Primary	1	79	-0.018	0.926	-0.018	0.189	22	-0.018	0.189	22
Test scores	Secondary	5	625	0.086	0.271	0.086	0.084	4	0.018	0.092	17
Child abuse and neglect	Secondary	1	149	-0.378	0.482	-0.378	0.537	3	-0.378	0.537	13
Repeat teen birth	Primary	1	77	0.089	0.678	0.089	0.215	22	0.089	0.215	22

Citations Used in the Meta-Analysis

Drotar, D., Robinson, J., Jeavons, L., & Kirchner, H. L. (2009). A randomized, controlled evaluation of early intervention: The Born to Learn curriculum. *Child Care, Health & Development, 35*(5), 643-649.

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Wagner, M. M., & Clayton, S. L. (1999). The Parents as Teachers program: Results from two demonstrations. *The Future of Children, 9*(1), 91-115.

Wagner, M., Cameto, R., & Gerlach-Downie, S. (1996). *Intervention in support of adolescent parents and their children: A final report on the Teen Parents as Teachers Demonstration.* Menlo Park, CA. SRI International.

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For more information on the methods used please see our technical documentation

360.586.2677
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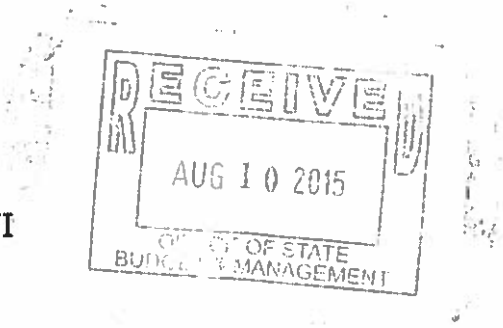

RFI # 49-GOVPFS2015
Response to Pay for Success RFI

Executive Summary

Ending homelessness in North Carolina is an achievable goal that would return considerable return on the initial investment. Nationally, on average, it costs emergency services, municipalities, and tax payers approximately $28,000-$32,000 a year per chronic homeless person while they are homeless. That same person costs approximately $18,000-$22,000 annually when housed. That is a 25%-33% savings for the community. Please see this link for further cost savings data-
http://www.endhomelessness.org/pages/cost_of_homelessness

The key is adopting a Housing First approach through out a system and implementing Housing First Intervention. This model of ending chronic homelessness has been proven to be effective by SAMSHA, HUD, The National Alliance on Ending Homelessness, and the Robert Wood Johnson Foundation to name a few.

The first step is to provide Intensive Housing Support Workers and Housing Locators (and supervisors) training on how to provide the necessary supports to serve this target population in their housing. Even the most experienced human service professionals need to be trained on this model. Then the community needs to prioritize homeless households with the highest acuity (most barriers/ complicating factors impacting homelessness). Acuity assessment is determined by using a researched and proven assessment tool like the VI-SPDAT and SPDAT (Service Prioritization Decision Assistance Tool). Then the appropriate outreach and connectivity to Emergency and Day shelters to identify and assess chronically homeless individuals and families must occur. Once the individual/family is identified, selected for housing, and agrees to participate in housing support the Housing Team works with the individual/family to secure safe affordable housing. The individual/family moves in and then the Intensive Housing Supports begin.

This exact formula has been implemented in Guilford County since March of 2014 and, according to the January 2015 Point In Time Count, has lead to a 30% reduction in Chronic Homelessness. Police interactions, emergency shelter stays, visits to the Emergency Room, and nights spent in jail have all reduced considerably with the participants in the Housing First Initiative. Families have been

reunited, health outcomes have increased, visits to primary care physicians have increased, and the vast majority of program participants have seen major increases in their housing stability (measured with the SPDAT). These program performance measures are equal to what has been observed across the country when communities develop a Housing First Implementation to addressing Chronic Homelessness.

Background

Partners Ending Homelessness is the lead agency for the federally designated Continuum of Care (CoC) known as NC 504 Greensboro/High Point/Guilford County. We are responsible for the data and reporting of our system outcomes, training partner agencies, developing and implementing the strategies and actions needed to end homelessness, collaborating across agencies and systems, transforming the homeless service system from a destination into a process that leads to households returning to housing as quickly as possible, and we administer the grant process for the Federal CoC grant (approx. $1.7 mill), the Emergency Solutions grant (both state and entitlement funding – Approximately $400,000), and the City of Greensboro Homelessness Prevention Funding (Approximately $300,000).

In 2013 we pursued and were awarded funding from a private foundation to create a Housing First Initiative. The current version of the program has 4 components-

1. Psychotherapeutic Services, Inc. (PSI) provides the intensive housing supports through the Assertive Community Treatment Team and Community Support team models.
2. Salvation Army of Greensboro provides the housing services including search, move in assistance, assistance with lease signing, paying rent and other financial obligations for as long as is needed by the household participating in this program.
3. Servant Center provides a SOAR (SSI/SSDI Outreach Access Recovery) case worker to help households connect with their Social Security Benefits (if eligible)
4. Partners Ending Homelessness- provides data collection, training, guidance, and overall program oversight and support as needed.

We have contracted with Orgcode Consulting (www.orgcode.com) who has assisted every step of the way with program development,

training, evaluating, and strategic planning. They have developed the Intensive Housing supports curriculum that is being used focused upon the "5 Essential and Sequential Steps in Housing Stability" and using the Service Prioritization Decision Assistance Tool (SPDAT) as the individual evaluation tool that guides and measures each households progress. The lower the score, the more stably housed an individual is. See this link for independent research on the effectiveness of this tool and curriculum- http://www.orgcode.com/wordpress/wp-content/uploads/2015/05/Release-of-SPDAT-Data.pdf

There would be no conflict of interest.

Outcomes & Measure and Pay for Success

There is a plethora of comparison data in the Homeless System Research. Here are some examples-
http://www.endhomelessness.org/pages/cost_of_homelessness
http://shnny.org/uploads/Florida-Homelessness-Report-2014.pdf

Typically the comparison is "business as usual" or "traditional intervention" vs. Housing First or Rapid Re-Housing. Another option is comparing 1 year pre housing to one year post housing. In our Housing First Initiative we measure:
-Improvement in Housing Stability scores using the SPDAT
-Police Interactions
-Nights in jail
-Emergency Room Visits
-Hospitalizations
-Primary/Urgent Care visits
-Behavioral health Hospitalizations
-Shelter Stays
We use these to measure 1-year pre and post housing comparing total visits/ interactions and associated costs.
Other options to look at are Criminal Justice costs and costs related to family reunification. An unexpected consequence to our work has been the reunification of at least 5 families. There are a myriad of costs in the world of children's services that can be measured.

Here is an example-
http://www.endhomelessness.org/blog/entry/study-data-show-that-housing-chronically-homeless-people-saves-money-lives#.VbqPz3hcK8G

Our data shows across the board decreases with some substantial cost savings when making comparisons. As an example in the 1-year before housing our group of 39 adults was in jail a total of 60 days, after housing 5 days. Medical Inpatient stays went from 21 to 11. Behavioral health went from 25 to 9. The data includes a number of people who should have sought hospital care before housing, but did not. The data is not quite 12 months post housing. However everything is trending n the right way.

Investment/Payments- An Intensive Housing Support worker salary ranges from about $32,000-$45,000. A typical caseload is 15-20 for high acuity clients 25-30 for moderate acuity clients. So a staff of 4 support workers plus a supervisor to work with approximately 100 clients would equal **$260,000** including benefits (roughly). The housing costs would depend upon fair market rents across the state and length of time a subsidy is needed. Part of the success of this model is working with clients from intake on paying rent (even if it is $1) and clearly communicating and reinforcing that housing stability with no supports as quickly as possible is the goal.
Using $600 as an average rent the annual cost would be approximately **$750,000** (at full caseload of 100 clients). If I add program costs at 25% we are looking at about $1.25 million annually. These are all broad stroke numbers than need further refining.

As a comparison, if those same 100 clients spent 1 night in jail, 1 night in the hospital, and 1 night in behavioral health hospital the total would be $377,000 (using our average costs) and they are just as homeless on day 4 as they were on day 1.

New Program vs. Discontinuation effort

Currently within the state of North Carolina there are a number of programs and services that focus on households experiencing homelessness or these households interact with more frequently than the housed population. Whether in DHHS, Justice Department, Labor Department, Department of Public Instruction, Department of Public Safety, and Office of the Courts. Within each of these departments outcomes would be increased and costs reduced if homeless citizens who interact with these departments were housed. If the State only looked at health related programs, costs, and outcomes we would find substantial cost savings serving this population using the model described above.

I am unsure at this early stage whether this proposal should be set up as a new program or a discontinuation effort. Both sides have merit. The state could consider this effort a wiser investment in valuable taxpayer resources than some of its currently funded programs. Or it could see it as a wise program offering that would reduce costs in a number of different areas such that it is a valuable tool in the state's effort to serve its citizens to the best of its ability while focusing on efficient use of tax payer resources.

Our role would be to oversee the use of the funding locally and ensure program was operating according to model serving the clients most in need of its services while. We would also track and report on agreed upon objectives assisting the research partner in this effort.

The state could start with a focus on the chronically homeless population across North Carolina. Then once that population is housed focus on veterans and/or families. Finally it could focus on singles and youth. The formula for success is the same for each population. The program expectations and performance goals would be similar. And the cost savings, though unique to each population, would be significant enough to justify the investment- both initial and ongoing. The State of Utah did something similar and is having tremendous results:
https://jobs.utah.gov/housing/scso/documents/homelessness2014.pdf
http://www.nbcnews.com/news/us-news/utahs-strategy-homeless-give-them-homes-n352966

In closing, I hope the State of North Carolina considers ending chronic homelessness across the state as a viable goal for it's initial Pay for Success model. I hope the explanation and data included, both national and local, have spurred the creativity and confidence necessary to advance this conversation further. If I can be of any additional service please do not hesitate to contact me.

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Safe Families for North Carolina Children: A Pay for Success Initiative

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Executive Summary

For all of us, life has many challenging parenting moments. For some of us – those without resources or a support network – one crisis can set off a chain reaction of catastrophic consequences. In today's environment of increasingly isolated families and devastating economic pressures, more and more families face moments of being unable or ill-prepared to care for their children. Faced with the pressures of holding together a family in these challenging circumstances, parents become more desperate and more likely to neglect and/or abuse their children.

Each year in North Carolina, a little over 120,000 children are reported to local Departments of Social Services (DSS) for alleged child abuse or neglect. Over 80% of these allegations are for parental neglect of children's basic needs rather than for physical or sexual abuse. Instead of investigating a specific incident of neglect, the majority of neglect reports are now tracked through a Multiple Response System (MRS) that assesses the broader spectrum of family needs that brought the family to the attention of DSS. Even though most of these family assessments end with the children's remaining in the legal custody of their parents, approximately 2,900 of the children who are subject to MRS are physically removed each year from their family home and placed into publicly financed foster care. The length of children's stay in foster care typically extends beyond one year in North Carolina. During this period of protective custody, taxpayer money is spent on judicial hearings, DSS placement, case management services, and foster care maintenance payments, which annually can amount to tens of thousands of dollars. As an alternative to removal into protective custody, local jurisdictions are encouraging more families to place their children voluntarily with relatives, neighbors, or voluntary church families.

Yet these cases of abuse and neglect did not appear overnight. Small predicaments compound into larger crises that prevent families from meeting their children's basic needs, increasing the likelihood of abuse and neglect. Before an initial report is filed or between the initial unsubstantiated report and subsequent re-reports lay opportunities to support these struggling families and stop the trajectory of pressure that leads to abuse.

Safe Families for Children (SFC) is a volunteer program designed to prevent children's removal into protective custody and lower abuse recurrence by recruiting and overseeing a voluntary network of host families with whom parents can place their children in times of need. Started in 2002 by Lydia Home Association (LYDIA), a child welfare agency based in Chicago, SFC partners with churches, ministries, and local community organizations to offer voluntary placement arrangements to families whose children are at risk of being removed from their custody by child protective authorities. In Chicago, for example, Safe Families has over 1000 host families who voluntarily take in children of a parent in a crisis situation. Children stay an average of 6 weeks while their parent works on the problems that led to the crisis situation. Family and Resource Friends (other volunteers) support the parent by providing mentoring, job search, child care, moral support, transportation, tangible items like beds and clothes, etc.

SFC provides substantial cost savings to the state by providing safe places for children and support for parents so that placement in foster care is not needed. The cost for a child to be in SFs is $500 per episode while the cost for foster care can be $25-30,000. **Depending on the rate of engagement of**

families with the SFC program, the cashable savings for NC could vary from $1,500,000 (20% participation) to $6,250,000 (80% participation). These amounts are based on the $19,500 difference between SFC and services as usual cost. In addition to saving taxpayer dollars, SFC functions as an alternative to the more adversarial nature of child protective services by fostering cooperation and trust between birth parents and the host family, who share decision-making authority. After the hosting arrangement has ended, the goal is for the two families to remain in contact and sustain the social support that was built up between the parents and the hosting family. Because of the legacy of trust and reciprocity that is forged between the two families during their shared care of the child, the expectation is that the supportive arrangement will continue after the children are reunified with their birth family.

Safe Families for Children will establish a pilot SF site in one or more southeastern counties of North Carolina as part of a Pay for Success contract agreement and is planning to expand to the Charlotte area.[1] The SFC program can be scaled-up statewide if evaluated to be cost effective.

The evaluator of SFC is Mark F. Testa, Spears-Turner Distinguished Professor at the School of Social Work at the University of North Carolina. He has already secured $95,708 in funding from the Laura and John Arnold Foundation to conduct a 2-year, low-cost randomized controlled trial (RCT) of the SFC program in the state of Illinois. The evaluator will seek additional funding from the Arnold Foundation to implement a similar RCT design with participating counties in North Carolina in which government payments will based on savings resulting from the diversion of neglected children from more costly county, state, and federally funded foster care.

Program Background

Safe Families for Children hosts vulnerable children and creates extended family-like supports for desperate families through a community of devoted volunteers motivated by compassion to keep children safe and ultimately together with their families.

Founded in Chicago in 2003, Safe Families for Children (SFFC) is a multi-site volunteer movement that gives hope and support to families in distress. SFFC reframes how families are supported during a crisis. Parents voluntarily place their children in safe, loving homes where they are cared for while the parents seek to restore stability in their lives. SFFC is dedicated to family support, stabilization and, most importantly, child abuse prevention. Safe Families has spread to more than 70 sites across the US in 28 states. Safe Families has also spread internationally with 12 sites in the UK, 2 in Canada and a site in development in Nairobi, Kenya. **Safe Families in the UK was recently granted 2.3 million pounds to pilot a type of Pay for Success innovation called Public Social Partnerships. This innovative funding mechanism will be piloted in 22 local authorities (local governments).** Since inception, Safe Families has had over 20,000 arrangements of children in host family homes.

SFFC is a community-based movement predicated on the belief that the safety and health of children in our communities is the responsibility of all of us, and that parents are the key to providing that well-being for their children. Accordingly, SFFC focuses on strengthening and supporting parents so they can be safe families for their children. SFFC is rooted in faith-based principles of welcoming strangers into our hearts and homes.

Safe Families for Children: How it Works[2]

Hosting and Supporting Families in Crisis: The SFFC network provides 'breathing room' and support for parents in crisis, allowing families to stabilize while children are in a safe and loving environment.

[1] Counties include Brunswick, Carteret, Craven, Duplin, Greene, Jones, Lenoir, Pamlico, Pender, Onslow, New Hanover, and Wayne,

[2] Much of the program model description of SFFC outlined in this paper is taken from the University of Maryland School of Social Work Program Model and Logic Model Description Report completed by Kanyahyanee Murray, Julia O'Connor, Berenice Rushovich and Nadine Finigan.

The family in need is called the "**placing family**," and the family taking in the child is called the "**host family**." Placing-family parents willingly place their children with a volunteer host family for a limited time (the average length of stay is six weeks) and can opt to reunify with their children at any time. The fact that both families participate voluntarily with no compensation or expectation of adoption builds trust. During the placement process, SFFC considers such factors as the location of the child's school and the existence of siblings (aiming to place siblings together to maintain as much stability and consistency as possible).

This connection between the placing family and host family is the most central relationship of the program, as it creates a safe haven for the children, as well as social support and a network for the placing family. The relationship between the two families is a partnership in caring for the children, with shared decision-making and responsibility. Throughout the hosting arrangement, the host families and SFFC volunteers address the placing parents' needs to prepare them to be safely reunited with their children.

After the hosting arrangement ends, SFFC's goal is for the two families to remain in contact, thereby reducing social isolation for the placing family and potentially providing ongoing support to the placing family after the child returns home. The host family also develops bonds with the children they take in and are generally very invested in their lives over the long run.

Evaluator: The UNC School of Social Work

Funded research at the UNC School of Social Work exceeds $12 million annually, representing contracts and grants from national, state, and local sources. The faculty and research staff of the UNC School of Social Work have led nearly 50 major research and training projects, with current or past funders that include:

- Federal Agreements: The National Institutes of Health, including NIDA, NIA, NIMH, and NIBIB; the Administration on Children, Youth, and Families; the Health Resources and Services Administration; the Institute of Education Sciences; and the National Center for Injury Prevention and Control
- Foundations: The School works with many of the nation's most prestigious foundations, including the Ford Foundation, the Duke Endowment, William T. Grant Foundation, Robert Wood Johnson, the MacArthur Foundation, Knight Foundation, and the Annie E. Casey Foundation.
- State Contracts: the School is actively involved in an array of contracts with the State of North Carolina to create a social services workforce that is highly qualified, competent, and well able to meet changing service needs across the state. Our faculty and students contribute in countless ways to improving the lives of the people of North Carolina through our child welfare traineeships, workforce training, data analysis, behavioral health services, and program consultation.
- UNC Awards: The University supports our faculty with competitive start-up funds and a broad range of resources, enabling social work faculty to conduct rigorous, innovative research that consistently garners the University's highest honors.

Experience of Evaluator

Dr. Mark F. Testa is Spears-Turner Distinguished Professor at the University of North Carolina at Chapel Hill. In addition to his experience with the evaluation of SFC in Illinois, Dr. Testa has designed three RCTs of subsidized guardianship demonstrations in the states of Illinois, Tennessee and Wisconsin and the RCT of the Illinois recovery coach program for substance-abusing parents. Currently Dr. Testa is the principal investigator for the federal Permanency Innovations Initiative and the Illinois Birth through Three IV-E waiver evaluation of therapeutic services to parents and caregivers of young children placed into foster care. Both of these federally-supported studies use

RCTs and existing administrative data to evaluate the causal impact of the respective interventions on child welfare outcomes.

External Organization: Third Sector Capital Partners, Inc. A 501(c)(3) nonprofit that leads governments, high-performing nonprofits, and private funders in building collaborative, evidence-based initiatives that address society's most persistent challenges. As experts in innovative public-private financing strategies, Third Sector is an architect and builder of the nation's most promising Pay for Success projects including the Commonwealth of Massachusetts and Cuyahoga County, Ohio. Third Sector is a grantee of the Corporation for National and Community Service's Social Innovation Fund.

Proposed Outcomes

The SFC-PFS project will aim to accomplish the following outcomes for North Carolina children whose removal into foster care was prompted by a MRS assessment of family need following the family's referral to local child protective authorities for alleged parental neglect: 1) reduced likelihood of removal from the home for placement into foster care; 2) similar or lower likelihood of repeat victimization with 3 and 6 months from date of investigation; 3) and similar or higher rates of safe and stable reunification with birth families within 12 months of removal. Success will be evaluated by comparing the outcomes for children referred to the SFC host family network to the outcomes for children from similar families who are removed and placed into foster care as a result of a MRS family assessment.

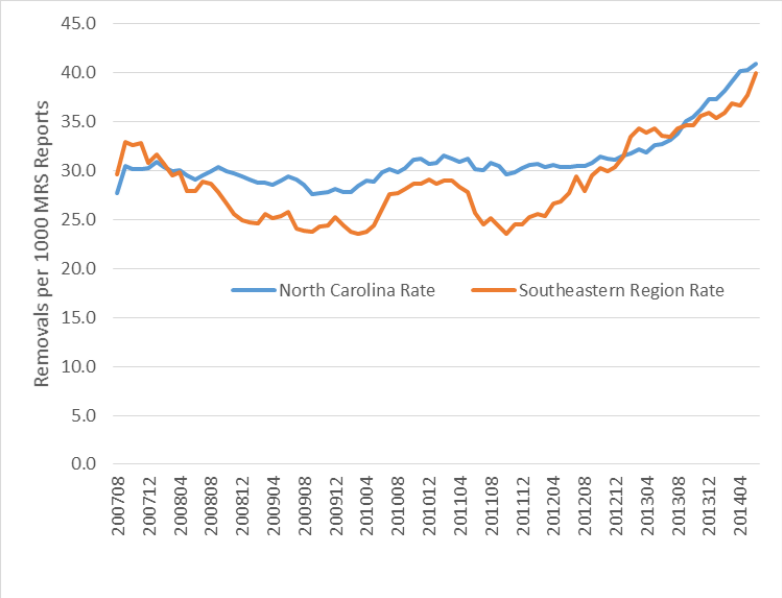
Table 1.—Core SFC program assumptions, outcomes, and measures

Core Program Assumptions	Outcome	Measure
Child welfare deflection: SFC provides a safe alternative to child welfare custody, which can significantly reduce the number entering the child welfare system.	*Removal to foster care (primary):* Removal of a child from the home for placement into foster care.	Among child subjects investigated for maltreatment, % taken into protective custody or later removed into foster care from 1 day to 24 months after randomization.
Child abuse prevention: Providing resource-limited parent with a safe, temporary place for children without threat of losing custody helps avert subsequent abuse/neglect episodes.	*Repeat victimization within 3 & 6 months (secondary):* Re-victimization of children within 3 and 6 months from the date of investigation.	Among child subjects investigated for maltreatment, % who had a subsequent report of maltreatment within 3 and 6 months from the date of investigation
Family support and stabilization: Many SFC host families become the "fictive" extended family that a parent never had, which helps birth parents maintain full custody or quickly regain physical custody of their children.	*Permanence within 12 months of investigation (secondary):* Maintenance of a child with the birth family for at least 12 months or reunification within 12 months.	Among child subjects investigated for child maltreatment, % who were maintained in the custody of their parents or returned to their physical custody within 12 months of investigation.

Baseline Evidence

MRS allows a county DSS the choice between a traditional investigative track for serious incidents of child maltreatment and a family assessment track for responding to reports of child neglect and dependency. The assumption underlying the family assessment track is that children can be better served when the focus is on building a trusting relationship with their families rather than taking a more accusatory approach toward their caregivers. The preference for an alternative response is demonstrated by the fact that now over 70% of children reported to county DSS in North Carolina are processed through the family assessment track.

Figure 1 Removal Rates of Children Subject to Family Assessment



Even though most of these family assessments end with the children's remaining in the legal custody of their parents, a rising proportion of children who are subject to family assessment are physically removed from their family home and placed into publicly financed foster care. Since 2011, the annual rate of increase has averaged 10.8 percent. Figure 1 illustrates the upward trend in removal rates of children subject to family assessment for the state as a whole and for the southeastern region. According to data submitted by the state to the federal government, an average of 3,200 children who are subject to the family assessment track are annually taken into care and 400 children are removed annually in the southeastern region of the state (Source: Fostering Court Improvement Website, University of North Carolina at Chapel Hill, http://fosteringcourtimprovement.org/state_websites.php).

There is a sharp discontinuity between the trusting partnership that family assessment endeavors to build and the legal response of child removal which DSS invokes to place children into foster care. There is no multiple response at the disposal of DSS for child placement, other than kinship care, which could enable the agency to adhere to family assessment principles rather than take a more adversarial approach and remove the children from their home. The lack of a multiple response to child placement runs the danger of an agency's taking more drastic measures when respite care may be all that is needed or, worse still, leaving children in unsafe homes when temporary substitute care is needed.

SFC offers county DSS an alternative to child removal and traditional foster care by partnering with churches, ministries, and local community organizations to offer voluntary placement arrangements to families whose children are at risk of being removed from their custody. Examples of circumstances in which SFC is appropriate include the following situations identified in a report completed at the University of Maryland School of Social Work:[2]

- An incident of child maltreatment occurs within the family but does not reach the level of maltreatment where removal of the child is mandated by law. Often these are neglect or very low level abuse cases under which some states assist the family without taking custody of the child. In such cases a referral may be made to SFC.
- An incident is reported to the child welfare system and while the family assessment is occurring, the child welfare agency requires that the child be placed out of the home. During this time and until the assessment is completed, the child can stay with a SFC host family to ensure safety.
- When a teenage mother is in the care of the child welfare system and not able to maintain a stable placement but the child of the teenage mom is not in care. Often the teenage mom is placed in a foster family or group home while her child is hosted by a SFC host family.

SFC functions as an alternative to the more adversarial nature of child protective services by fostering cooperation and trust between birth parents and the host family, who share decision-making authority. Additional volunteers may be recruited to help both sets of families in other ways, such as providing transportation assistance, child care, moral support, and job search assistance. After the hosting arrangement has ended, the goal is for the two families to remain in contact and sustain the social support that was built up between the parents and the hosting family. Because of the legacy of trust and reciprocity that is forged between the two families during their shared care of the child, the expectation is that the supportive arrangement will continue after the children are reunified with their birth family.

LYDIA is seeking to bring the SFC program to North Carolina, starting with the counties in the southeastern region of the state. Table 2 presents baseline county-level data on child welfare needs and performance for the Southeastern region of North Carolina and the entire state. The two designated regions for the pilot SFC program are the two largest counties in the Southeastern region: New Hanover and Onslow. Together they account for 64% of the removals of children into foster care who were subject of family assessment. These two counties also exhibit higher per-capita rates of child maltreatment reports than the other Southeastern counties and the state as a whole. But they differ in rates of repeat maltreatment with New Hanover registering the highest at 6.7% with reports within 6 months and Onslow among the lowest at 2.9%.

[2] Murray, K., O'Connor, J., Rushovich, B. & Finigan, N. (2012). *Safe Families for Children's Program Model and Logic Model Description Report.* Baltimore: University of Maryland School of Social Work

Table 2.—Baseline Indicators for North Carolina Southeastern Counties and Total State as of March 30, 2015

Region	Child Maltreatment Reports		Subject to Family Assessment				Reunified within 12mos. of Removal	Median Days in Foster Care
	Number of Reports[1]	Rate Per 1000 Child Population	Number[1]	% of Reports	Re-victimized within 6 months	Removed into foster care		
Brunswick	1,317	58.9	870	66.1%	4.0%	36	14.7%	376.4
Carteret	923	71.0	816	88.4%	2.1%	18	20.0%	114.7
Craven	1,549	63.6	1,431	92.4%	3.9%	30	22.2%	368.3
Duplin	915	60.2	449	49.1%	5.1%	3	7.7%	400
Greene	209	42.8	187	89.5%	0.0%	12	33.3%	333.5
Jones	47	21.3	26	55.3%	0.0%	0	0.0%	719.2
Lenoir	1,206	85.7	1,013	84.0%	4.4%	18	0.0%	418.6
New Hanover*	3,786	87.5	3,115	82.3%	6.7%	172	25.6%	298
Onslow*	3,634	77.1	3,128	86.1%	2.9%	97	13.7%	346.5
Pamlico	62	26.7	49	79.0%	5.0%	0	0.0%	426.1
Pender	518	40.3	447	86.3%	3.0%	16	20.0%	543
Wayne	1,657	53.6	1,467	88.5%	3.1%	21	27.8%	388.8
Total	15,823	68.0	12,998	82.1%	4.2%	423	19.8%	344.8
North Carolina	139,547	58.5	107,434	77.0%	3.9%	3,258	17.7%	377.1

*Pilot sites [1]Complete counts July 1, 2013- June 30, 2014.

Source: Fostering Court Improvement Website, University of North Carolina at Chapel Hill, http://fosteringcourtimprovement.org/state_websites.php

Expected Outcomes

The best external source of baseline data for establishing expected outcomes comes from the SFC program that has operated in Illinois. The first two columns of data in Table 3 were generated by matching children served by SFC host families with the children who were taken into Illinois protective custody between the years from 2003 to September 30, 2014. This period coincides with the years SFC became operational in Illinois. Of the 3,160 children placed with SFC host families, 891 matched exactly to 1,914 children in the DCFS-removed population by the quarter of case opening, the age at opening, and the gender and ethnicity of the child. Because children placed with SFC families profile younger, include more Hispanics, and cluster in more recent entry cohorts than the DCFS-removed population of children,

exact matching on these variable helps to achieve closer statistical equivalence between the two groups. Table 3 compares differences in key outcome variables for the populations of SFC-hosted and DCFS- removed populations. The last two columns of data were generated from the Fostering Court Improvement website maintained at the University of North Carolina. These differences offers several points of reference for projecting expected differences in outcomes as a result of the SFC intervention.

Table 3.—Differences between matched SFC-hosted and matched DCFS-Removed Samples

Outcome	SFC-Matched Children	DCFS Matched Children	Illinois	North Carolina
Reunified within 12 mos.	80.4%	26.4%	13.0%	17.7%
Median days of out-of-home care	35 days	564 days	768 days	377 days
Re-victimization within 6 mos.	n.a.	4.3%	8.0%	3.9%

The largest projected difference is the much shorter median length of separation of children from their birth families. Half of the children in the SFC-matched sample return to parental custody within 35 days compared to 564 days for the DCFS matched sample. Even though Illinois registers lengths of stay that are approximately twice as lengthy as stays in North Carolina, the duration that children are separated from their birth families is still approximately one-tenth the median duration of foster care in North Carolina.

Anticipated Investments

There should be only minimal investment required from private investors. Support for paid SFC staff to serve as case coordinators for the birth parents and the host families averages approximately $500 per episode of assistance. The cost of conducting the independent evaluation should not exceed the $100,000 that the Arnold Foundation is currently providing for the evaluation of the Illinois SFC.

The amount of payments that would be expected from North Carolina government depends on the state/county commitment to reserve in a Special Fund the difference between the average costs of services as usual for the children removed to foster care and the $500 per episode of SFC assistance. Assuming that the North Carolina costs of foster care and case management are roughly equivalent to the Illinois average of $15 per day in foster care maintenance costs and an additional $45 per day in county and private agency administrative expenses, the expected costs of service of usual would amount to $22,000 for a year of foster care. Over a two-year period, it can be projected that approximately 800 children from the Southeastern counties would be candidates for the SFC program. Randomizing one-half of the children to the SFC program and the other half to services as usual would involve assigning 400 cases to the comparison group. Depending on the rate of engagement of families with the SFC program, the cashable savings could vary from $1,720,000 (20% participation) to $6,880,000 (80% participation). These amounts are based on the $21,500 difference between SFC costs and services as usual costs.

When looking at savings, it will be critical to look beyond just foster care budgets to find savings. In North Carolina, the cost of foster care is borne more by Medicaid than by Child Welfare. Child Welfare pays a board rate of about $500 to $600 a month depending on the age of the child. Many foster children, with their histories of maltreatment, are in therapeutic placements for which Medicaid pays $2500 to $10,000 per month or more. A substantial percentage of the savings from reduced entry into foster care could come from decreased Medicaid spending for therapeutic placements. In addition to child welfare costs, .savings within Medicaid budgets should also be considered and measured.

The state should measure primary success based on the difference between the total days in "out-of-home" care between the SFC and comparison groups. In addition, primary success should also depend on no difference in the rates of re-victimization in the two groups. These calculations should be done every 6 months over a two-year period for the intervention and the evaluation. Ideally the SFC intervention and comparison groups should be formed by randomly assigning families whose children are targeted for removal to either the SFC program or to services as usual. For the Illinois evaluation of SFC, computer programmers developed a "behind-the-scenes" randomizing routine for assigning each family unit whom investigators deem an appropriate candidate for the SFC program. After an investigator and supervisor agree that a family is appropriate for SFC, the supervisor activates a "hyperlink" associated with each case investigation. This hyperlink "flips a coin" to allocate randomly the recommended case to the intervention or comparison group. A target-area supervisor gets a response immediately upon clicking the hyperlink which will indicate whether or not the investigator may approach the family about participating in the SFC program (intervention group) or whether the family must be taken into foster care or referred to another program or service (comparison group). A similar method of allocating cases will be explored in the pilot counties.

Other ways of forming comparison groups can also be explored, which don't require random assignment at the family level. These include randomly assigning counties to the two groups. The major drawback to this approach it that it requires the participation of a large number of counties into order to detect statistically significant differences. Fortunately the ability to rely on existing administrative data to track outcomes may make a county-randomized design feasible if SFC is scalable across the state.

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Ms. Arnetha Dickerson
State of North Carolina
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Mail Service Center 20320
Raleigh, North Carolina 27699-30320

August 5, 2015

Re: Response to Request For Information NO. 49-GOVPFS2015; "Pay for Success RFI"
An Innovative Approach to the Current Healthcare

Dear Ms. Dickerson,

The attached is Secure Exchange Solutions, Inc.'s (SES) response to North Carolina's "Pay for Success RFI."

History…

SES has been involved with North Carolina for over 4 years; we have briefed two Secretaries of Health and Human Services, numerous State Legislators (both House and Senate), conducted a no cost demonstration, wrote several unsolicited proposals, and submitted and was the apparent winner with our partner NTT Data of RFP No. 30 DMA 28128-13 only to have it pulled for lack of funds. We are convinced that our approach to improving the overall efficiency and quality works and can still save North Carolina a significant amount of money.

Proposal Summary…

At our own cost, with the North Carolina's approval, SES is willing, through a limited implementation of the Trusted Medical System, to prove at a 95% confidence level the amount of fraud, waste and abuse within the North Carolina Medicaid System. Once potential savings are verified, SES will negotiate a fee/savings contract with the State to implement the Trusted Medical System at its own cost across the State on a cost savings sharing basis.

About the Company

Secure Exchange Solutions, Inc. (SES) is a Maryland-based company that has developed an integrated multi-enterprise application, "The Trusted System," that provides a technology framework to manage, classify, protect and control valuable digital content and data, enabling collaboration across enterprises. The Trusted System is a patented system which makes use

of a token that creates a virtual environment to provide a secure, controlled application for various industries. The System provides both multifactor identification and a secure key to gain access to sophisticated cloud-based services. The Company's initial industry application is the Trusted Medical System (TMS), which improves the overall quality of healthcare while significantly reducing the State's cost through system efficiencies.

Pay for Success

We believe our system is a perfect example of the "Pay for Success" initiative of private industry working with the State of North Carolina to achieve significant benefit to the State of North Carolina.

Sincerely yours,

Douglas H. Trotter
CEO & President

Attachment: Response to Request For Information NO. 49-GOVPFS2015; "Pay for Success RFI"

State of North Carolina
Pay for Success RFI
Request for Information No, 49-GOVPFS2015
Due Date: August 11, 2015

Executive Summary

A National "Fraud, Waste and Abuse" that no one is addressing……

More than 50 million Americans are currently enrolled in Medicaid that is projected to costs American taxpayers $450-$500 billion per year. To put the size of the program in context, annual Medicaid spending now exceeds Wal-Mart's worldwide annual revenue and annual Medicaid spending is 60 percent larger than Greece's entire economy.

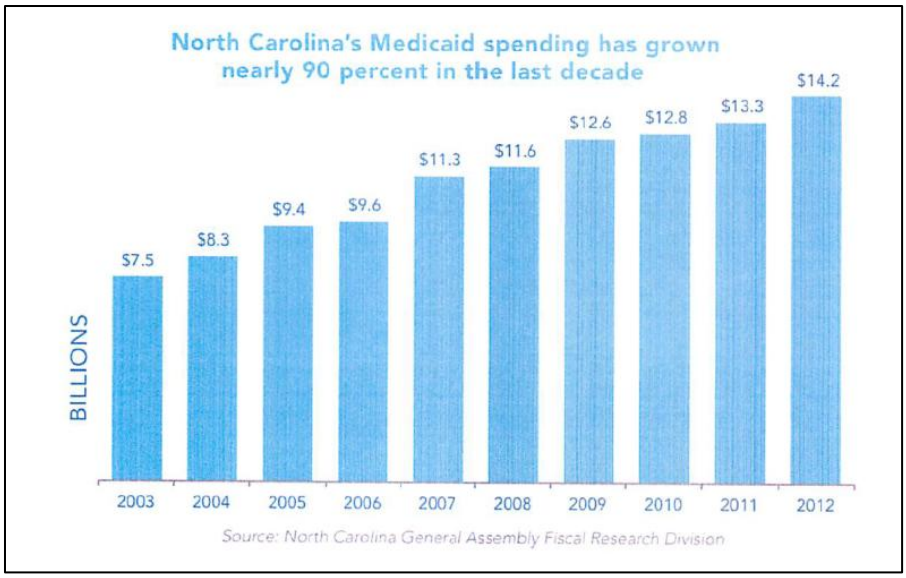
According to the staff report of the U.S. House of Representatives, 112th Congress, Committee on Oversight and Government Reform, "Uncovering Waste, Fraud and Abuse in the Medicaid Program", date: April 25, 2012, the amount of fraud, waste and abuse within the Medicaid Program could exceed $100 billion per year or approximately 20% of the Program's budget. Policymakers in favor of increased taxation and growing government should first look inward at how government is functioning, and focus first on curtailing the excessive waste, fraud, abuse and mismanagement that is pervasive throughout programs such as Medicaid.

"Fraud, Waste and Abuse" are major systemic problems within the Healthcare industry and will be growing due to the expansion of the Medicaid Program under the Affordable Care Act. Typically, this involves billing for services not rendered, services not medically necessary, billing for a fraudulent patient, and billing multi-fraudulent prescriptions.

North Carolina's Challenge is getting severe…

North Carolina's Medicaid program currently provides healthcare and social services for approximately 1.8 million citizens through partnerships with healthcare providers, local governments, and the federal government. Given the continuing economic conditions, it is projected that this number will increase in coming years under the Affordable Care Act, putting additional burden on the healthcare delivery and financial support of the North Carolina's Medicaid programs. The chart below summarizes the Medicaid enrollment growth in Medicaid spending over the past decade, and if continued at this growth, will approach nearly $30 billion, a figure that is unsustainable.

North Carolina, like most states, is continually faced with the decision of how to pay for increases in the Medicaid Program without overburdening its tax paying citizens. Adding to this dilemma is how to maintain and improve the overall quality of healthcare of North Carolina's most needy citizens without cutting services. To effectively address this challenge, North Carolina needs a new approach that effectively and positively addresses the quality of healthcare of North Carolinians while controlling program costs.



A Simple No Cost Solution…

The Secure Exchange Solutions, Inc. (SES) has developed the "Trusted Medical System" (TMS) that offers a new service and improved payment model that will incentivize providers to improve the overall quality of outpatient and/or post-acute settings addressing: diagnostic services, outpatient radiology, high-cost physician-administered drugs, home-based services, therapeutic services, and post-acute services; while reducing system costs for those services.

TMS was designed to address the needs of the Medicaid population, and can be spread across all services, including Medicaid, Medicare, CHIP and Private Insurance populations. By creating a front-end secured system that establishes the validity of a transaction, TMS solves a tremendous problem (gap) facing the overall medical system; establishing a trusted transaction (one that certifies both the provider and beneficiary by establishing identity, certifications, eligibility, location, and length of service. Utilizing a trusted transaction, TMS will enable North Carolina to track a specific protocol across the "**continuum of care**," providing alerts, reduction in duplicate services and rapid access to integrated medical systems/records (Health Information Exchanges, Hospital EHRs, Health Benefit Exchanges, Payment Systems), that enables proactive intervention models to be undertaken, resulting in better patient health care and a reduction in overall cost. The problem is the current systems used within North Carolina do not offer a mechanism that tracks a valid transaction through a healthcare protocol, and each event is separate resulting in a series of transactions that are processed on an individual basis through the respective payment systems. Besides providing a marked improvement in the overall health care of the beneficiary, TMS reduces the overall costs by providing a confidence factor to every billing transaction that will allow rapid payment to providers – incentivizing them to use the system. TMS not only addresses outpatient models, it will address the "Home Healthcare Model" enabling focused healthcare plans to be developed that will provide better outcomes and reduce costs associated with hospital readmissions. TMS produces a method and information system that is sustainable and lowers the cost of the overall healthcare system by approximately 10 percent (between approximately $500-600 per beneficiary across North Carolina or approximately $1.8 billion of State & Federal monies per year). Our approach to this "Pay for Success" proposal is that Secure Exchange Solutions would fund and operate the entire system for the North Carolina Medicaid program and share in a percentage of the

savings to the State and Federal Government for a period of time and then license the use of the Trusted Medical System to the State for continued operations.

To be more specific, SES proposes that North Carolina and Secure Exchange Solutions enter a "Pay for Success"contract that provides the terms and conditions and success criteria for the program. This would be a two phase contract. Phase 1 would establish the amount of savings that the program would generate and develop an overall implementation plan. During this Phase, a cost saving model would be agreed upon between both parties – if the agreement was not reached, North Carolina would reimburse Secure Exchange Solutions for the cost of Phase 1. Phase 1 should last approximately 12 months. Once a cost savings fee contract was negotiated, Phase 2 would involve the implementation of the Trusted Medical System across North Carolina both CCNC and fee for service beneficiaries. Phase 2 should last approximately 24 months.

A model that works…

TMS provides the foundation that enables the re-engineering of the processes and major cost reductions associated with Medicaid and/or CHIP costs in outpatient and/or post-acute settings. TMS provides unique information and metrics that improves the overall quality of the healthcare delivery system. With the System, providers will be enabled to allocate additional time to beneficiary care, track beneficiary health care episodes (evidence-based), and provide near real-time interventions. As described in the Attachment, the Trusted Medical System has already been implemented in a limited scope for North Carolina's Medicaid Program through a pilot initiative conducted with Community Care North Carolina (CCNC) Community Health Partners. The limited program not only demonstrated the tremendous savings that TMS could produce if fully implemented across North Carolina, it also gauged the acceptance of the system by the providers and beneficiaries using the system, which was quite remarkable. The full functionality of the TMS produces even greater efficiencies and process savings, which will be demonstrated and documented though this effort. The primary challenges that were overcome during the North Carolina TMS pilot were numerous, however results were extremly positive. It was questioned whether Medicaid beneficiaries would use the token. The beneficiaries were overwhelmingly accepting of the card. Ease of use was also questioned, however providers were pleased with the simple operation and were disappointed that it was only a limited demonstration. An additional challenge was to ensure the TMS was interoperable with other HIT capabilities. As it turned out, SES had no problem interfacing with State's EIS, MMIS and payment systems within three days. Most importantly, it was questioned if the TMS would be beneficial to the State; the TMS was the only database that followed the beneficiary and provided a full episode of care and it eliminated the major causes of fraud and inefficacies within the healthcare system. Essentially, the TMS demonstration conducted in North Carolina mitigated all the perceived risks set forth by the Department of Health and Human Services that could be associated with this effort.

While the implementation effort was limited to primary care providers, the Trusted Medical System fundamentally supports all aspects of the healthcare continuum. It provides the interfaces essential to providing better healthcare to the general population. It enables providers to share critical information and serves the entire spectrum of healthcare. It links labs, ERs, pharmacies, home healthcare providers, and other out-patient services.

Required RFI Data

- Background

- What role would your organization have in a pay for success contract?

  Secure Exchange Solutions with its partners would completely fund the evaluation system, develop the software, deploy the system, operate the system, and provide an independent third party to evaluate the savings, and present a final report to N.C. Once the savings are validated, Team SES will implement TMS across the entire North Carolina Medicaid Program for a three year pre-negotiated fee based structure.

- What potential partners have you identified to fill other roles?

Trecom Systems Group	Verizon	HP	Pulse8
SUNGUARD	Oracle	CITRIX	NTT DATA
TRUVEN			

- What experience does your organization have working with government entities?

  SES and its partners for this project have numerous contracts with both Commercial, State and Federal Government entities.

- What experience does your organization have in implementing or evaluation initiatives?

  With our partners SES has had multiple complex implementations and evaluations of major communication and system integration initiatives for State and Federal Government Proposals.

- Other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

  None

- What outcomes should the state pursue?

  - What evidence exists for a baseline comparison?

    Current North Carolina Medicaid spend against amount spent North Carolina by using TMS

  - What investment would be required by investors?

    $2 to $3 million for initial deployment and evaluation
    $20 to $50 million for full implementation

  - What payments would be expected from the state? (rough order of magnitude)

    50% of savings for 3 years, then a license (SaaS License or Enterprise Application License)

- What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

  Multiple levels of savings throughout DHHS programs and other Departments within North Carolina

- How should the state measure and pay for success (cashable savings, wellbeing benefits, and willingness to pay)?

  - What metrics should the state use?

    Directed savings from current spending

  - What time period should the state set for intervention and evaluation?

    12 months

  - At what interim dates should the state evaluate outcomes?

    2months to set it up, 9 months operations; 1 month evaluation

  - What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

    Cost savings approximately $500 to $600 per person per year in a limited implementation, more if fully implemented, at a cost of $30 to $60 per year per person.

One of the following:

- If a new program, how would it expand through scale or replication?

  - What continuing role would your organization have in continuing the program?

    We would build it and run it and if desired, or turn it over to the State to run under a license agreement

  - What role would the state have in continuing the program?

    It is the DHHS' program, we share in the savings

  - What would the ongoing costs of the program be?

    After the shared cost savings period, the ongoing annual cost of TMS should be in the range of $70 to $120 million per year with an estimate cost savings to North Carolina of $1 to $2 billion per year. **(At least a 10 to 1 return of investment)**

ATTACHMENT

The Trusted Medical System
North Carolina Limited Implementation

Overview

Secure Exchange Solutions, Inc. ("SES") with input from healthcare providers, insurance companies and state officials developed The Trusted Medical System ("TMS" or System") in response to several issues plaguing the Medicaid system. These issues include insecure data protection and authorization measures, fraud and inefficiency and, ultimately, cost expansion. To prove that TMS could counter these problems and improve the quality of healthcare, in conjunction with the North Carolina's Department and Human Services, SES demonstrated the system in 2011-2012 within North Carolina's Medicaid program. During the 6-month period, approximately 540 Medicaid recipients were issued TMS Cards to use at the point-of-service during all episodes of care administered by four participating healthcare providers. The pilot results were overwhelmingly positive. Not only was the system effortlessly implemented by providers, it also proved to be extremely user-friendly for patients. **And the most noteworthy outcome of the pilot was the System's cost avoidance.** The pilot helped to illustrate that the anticipated annual savings when implemented throughout the State's Medicaid program are estimated to be **$842 million yearly.**

Key Findings

The following key drivers are essential in enabling the System to avoid costs and reduce waste and fraud in the Medicaid program:

- ***Technical Integration with State Database: Successful*** - The System was integrated with the State's MMIS database and received daily updates on Medicaid eligibility.
- ***Card Issuance: Simple -*** A process was generated that took only up to 5 to 7 minutes per card issuance and the provider staff took over this function from SES before the pilot was completed.
- ***Medicaid Eligibility: Accurately and Quickly Verified -*** Of the hundreds of eligibility checks, the System functioned with 100% accuracy. Each eligibility check took approximately 8 to 10 seconds instead of the lengthy amount of time required under existing practices.
- ***Authentication: Highly Accurate -*** Of the hundreds of authentication checks, the System functioned with 100% accuracy in presenting the correct electronic picture of each patient retrieved from the policy server.
- ***Patients Exhibited: A Sense of Pride in Card Ownership -*** Patients returned with their TMS Cards during repeat visits. The physical condition of TMS Cards presented by patient participants during repeat visits was generally excellent. Patient surveys indicated that the patients preferred the TMS Card over the traditional paper Medicaid card issued by the state.

Preventing Fraud

Complying with the guidelines provided by HIPAA regulations, the HITECH Act, TMS helped the state and providers avoid a multitude of unnecessary costs due to identity, patient and provider fraud. TMS'

three factor authentication process (something you have: the card, something you know: Personal Identification Number (PIN), something you are: card holder's picture stored on policy server) ensures the identity of a recipient in a protected and expedient manner by checking the cardholder's demographics and photograph with the information on the System's remote policy server. The patient must not only possess the TMS Card, but must also provide their personal identification number and resemble the photograph on the policy server, thus reducing the risk of identity fraud dramatically.

Another major cost to Medicaid arises due to provider fraud. While many electronic healthcare card systems largely neglect the role of the provider, TMS accounts for this cost drain by allowing for the interface of both provider and recipient cards. Unlike many smart cards with swipe strips, TMS Cards have USB capabilities making them uniquely compatible with a dual-authentication process due to the ubiquity of USB ports. Providers can no longer simply use social security numbers or other personal patient information to bill Medicaid for fabricated services, as all transactions must be combined with a patient's TMS Card, providing through the Transaction/Policy Server the time and length of service.

Unique System Attributes

TMS' compelling features and functionality makes it different, effective and extremely cost efficient**:**

- ***Secure and Interoperable*****:** TMCS offers a portable, interoperable, secure means of storing, exchanging and presenting patient medical information across multiple healthcare providers and facilities. Providing both patient security and interoperability, the TMCS is a bridge technology between health records, patient information, and health information exchanges.
- ***Dual Authentication Enhances Security*****:** The most effective way to establish identity is through a physical token that interacts instantaneously with a cloud-based identity server. Using a USB device, TMCS is a cheaper and more secure solution than a Smart Card. Rather than storing keys locally (within the card), the TMCS stores keys on its secure policy server. TMCS mitigates risk of impersonation by requiring dual authentication by the user and registered clinician.
- ***Rapid and Efficient Eligibility Checking*****:** The TMCS will update plan information, provide updated appointment schedules and validate Medicaid eligibility. The TMS Card provides individualized plan and provider information to patients as required.
- ***Additional Medical Records Capability Upgrades:*** Once the basic System has been deployed, adding functionality upgrades, such as the inclusion of medical records on each TMS Card, can easily occur.

A Flexible Platform

The Trusted Medical System advanced technological capabilities distinguish it from other systems on the market in part due to its flexibility. As technology advances, healthcare systems will inevitably need to progress as well. Although TMCS currently features a USB device, it can accommodate many other types of communications such as swipe strips, chip-based smart cards, and barcodes, allowing the technology to be adapted to individual demands and circumstances. With the growth of smart phones and tablets, the adoption of apps and other smart phone capabilities will be crucial to the healthcare industry. TMS is prepared for this technological advancement with easy to install mobile apps.

Integration into Current System

The success of any new form of technology ultimately depends on its integration into the already existing framework. A healthcare system that is not utilized by both providers and recipients, whether due to complexity of usage or perceived inferiority to previous systems, cannot achieve improvements in healthcare or diminish costs. The results of the North Carolina pilot demonstrate the usability and effectiveness of TMS. The fact that the TMS Cards were seamlessly adopted by Medicaid recipients and providers alike illustrates the success of the TMS to integrate itself into the existing healthcare system.

Response to the State of North Carolina's Pay for Success Request for Information

Request for Information # 49-GOVPFS2015

August 11, 2015

Submitted by:
Social Finance, Inc.
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(617) 939-9900

Executive Summary

Social Finance is pleased to submit this response to North Carolina's Request for Information.

There are many compelling opportunities to use Pay for Success (PFS) in North Carolina to scale leading evidence-based programs. Having a qualified and dedicated intermediary is imperative in order to engage private investors and service providers, manage risks, and structure a successful program. At Social Finance, we have the skills and expertise necessary to effectively manage the full lifecycle of developing and implementing a PFS project: identifying the opportunities, structuring the PFS financing, raising investor capital, managing the project, maintaining fund flows, and managing performance during PFS implementation. We are committed to leveraging our experiences with governments across the country, as well as the wealth of knowledge from our global network of affiliate organizations, to structure and implement PFS projects in North Carolina that produce the best outcomes to measurably improve the lives of those in need.

About Social Finance

Social Finance, Inc. is a 501(c)(3) nonprofit organization dedicated to mobilizing capital to drive social progress. Co-founded in January 2011 by David Blood, Sir Ronald Cohen, and Tracy Palandjian, Social Finance believes that everyone deserves the opportunity to thrive and that impact investing can play a catalytic role in creating these opportunities. Social Finance is committed to designing public-private partnerships that are focused on resolving complex social challenges. Through these partnerships, we aim to direct capital to evidence-based interventions to facilitate greater access for vulnerable populations. Core to our mission is the advancement of PFS projects in the United States through comprehensive advisory work, transaction development, performance management, and market education.

Our team of 27 staff members possesses cross-sector experience that enables a nuanced understanding of stakeholders' perspectives and strengthens our ability to frame and solve complex issues. Our engaged Board of Directors includes respected leaders who contribute multi-disciplinary expertise to our activities. Advisory Board members provide us with sector-specific guidance to ensure our projects reflect best practices in the field. Social Finance is also proud to be part of a global network of organizations launching and managing PFS projects, including Social Finance UK, creator of the world's first PFS project in 2010.

What role would Social Finance have in a Pay for Success contract?

Social Finance strives to work collaboratively with public, private, and nonprofit partners to develop, structure, finance and manage PFS contracts. While we offer an array of intermediation services, our approach is flexible so that we can address the particular needs of the communities and stakeholders we serve. Social Finance's services include:

Advisory Projects. Advisory projects prepare governments, service providers, and other organizations for participation in PFS projects and examine applications' suitability for this approach. Social Finance provides field-informed guidance to stakeholders with an interest in PFS participation; conducts feasibility assessments to identify social programs suitable for PFS; and designs, launches, and manages pilots to test promising applications. To date, our firm has led over

25 feasibility studies and pre-PFS transaction work assessments across numerous content areas at both the city and state-levels.

Financial Structuring and Project Management. Social Finance supports the successful design and launch of PFS transactions. Our team has applied its expertise in financial deal modeling and structuring across one closed and six live transactions in geographies including New York State, South Carolina, Connecticut, Massachusetts, and Michigan.

Core to our work is a deep appreciation for the complexity of bringing together multiple stakeholders, the importance of a consensus-based approach, and the need to translate across stakeholders that are not used to working together. As an informed party with a holistic perspective, Social Finance plays an important role in designing programs, partnership structures, and financial arrangements that align the interests of all parties while developing a PFS project. Social Finance works with parties to specify the target population, geography and program size; articulate a cost-benefit analysis; analyze and select outcome metrics that reflect public policy and beneficiary goals; design an appropriate evaluation plan; structure the timing and size of project cash flows; develop and negotiate contracts, and arrange investment capital. Social Finance has the expertise to facilitate these sets of decisions, which are inter-related, complex and require the partners to make trade-offs, in order to develop a project that can measurably improve the lives of people most in need.

Social Finance works to convene partners, frame complex issues, and translate perspectives in order to find common ground and optimize outcomes for each party. From project inception, Social Finance works to identify stakeholders' core principles and interests. When difficult decisions arise, Social Finance brings stakeholders back to these core principles and collaboratively develops creative solutions that marry stakeholder interests. Additionally, Social Finance has developed a proprietary set of work plans that can be tailored to the PFS projects on which it partners. These work plans break down the PFS design and implementation processes into manageable components, outline the integration between the activities, and provide timelines against which to organize partner resources.

Investor Solicitation and Capital Raising. One of Social Finance's core responsibilities as a PFS intermediary is developing a viable capital raise strategy and securing an optimal mix of capital for a PFS project. The optimal financing structure will be dictated by the objectives of government, the evidence-base of the intervention(s), and the operational capacity of the service provider. Social Finance seeks to align partners' interests by **(1)** articulating and mitigating sources of risk; **(2)** contributing to negotiation among relevant parties; and **(3)** obtaining iterative feedback from investors and government.

Since its founding in 2011, Social Finance has developed a proprietary database of hundreds of qualified impact investors, including national and community foundations; community, national and international banks; and private wealth managers. A select example includes:

- **New York State Workforce Reentry PFS:** In 2013, Social Finance partnered with Bank of America Merrill Lynch (BAML) to raise $13.5 million from 40+ social impact investors through an equity investment in a PFS special purpose vehicle, the first time such a strategy was used in the PFS market. The majority of these investors had never invested in the

service provider, thereby allowing services to expand without cannibalizing existing funding. Social Finance and BAML conducted in-depth due diligence on the provider, developed a Private Placement Memorandum, and successfully marketed the investment within two months. As part of the offering structure, Social Finance secured a grant from the Rockefeller Foundation to partially mitigate the risk of principal loss for a subset of investors.

Performance Management and Monitoring. The success of PFS projects rests on the ability of providers to implement interventions with fidelity and manage performance to achieve pre-determined outcomes, especially in the face of unanticipated external challenges (e.g. insufficient referrals). Social Finance is focused on providing active performance management support and investor relations over the implementation period of a PFS project. This includes close coordination among all stakeholders, data analysis and course corrections to ensure outcomes are achieved.

What outcomes should the State prioritize in Pay for Success contracts?

The ability to closely monitor and analyze outcomes is critical to the success of any PFS project and one of the unique advantages PFS brings to its stakeholders. Outcome measures should be selected based upon three criteria: **(1)** meaningful indicator of social impact and public sector benefits; **(2)** observable in data systems; and **(3)** historical evidence demonstrating that the specific intervention model and provider affect targeted outcome metrics.

North Carolina should focus on interventions with strong evaluations, and design projects that allow the State to place a value on the social outcomes it seeks to achieve. For example, in our New York State transaction, the Center for Employment Opportunities (CEO) and Social Finance identified sub-populations for which CEO was proven to make the deepest impacts. By designing the PFS intervention specifically around high risk and recently released parolees, CEO is achieving the greatest social value for its participants, while allowing government and investors to achieve the greatest financial impact.

How should the State measure and pay for success?

In measuring success, an evaluation methodology should be chosen that matches the goals of the project. Evaluation options include randomized control trials (RCTs), quasi-experimental methodologies (e.g. propensity score matching), and difference in historical baseline. There are many considerations when selecting an evaluation methodology, including, but not limited to:

- *Robust comparison group:* Can an evaluator create a counterfactual or a control group to measure the intervention?
- *Ethical concerns:* Are there concerns around denying counterfactual services?
- *Cost:* What is the available budget for the evaluation?
- *Innovation:* Is the evaluation intended to assess what has worked in the past or a new, untested innovation?

In paying for success, government can think about articulating its public sector benefits across two vectors: time and type. For example, a workforce reentry program provides short- and long-

term benefits that are both fiscal (avoided bed days in incarceration facilities) and social (reduced crime improves quality of life). Understanding what time period and what type of benefits government is willing to pay for can help structure the financing, as well as focus attention on policy areas for which PFS should be considered.

What payments would be expected from the State? (rough order of magnitude)
What investment would be required by investors?

The amount of working capital required for the PFS contract will depend on the scale and cost of the intervention. The scale of any given intervention, in turn, will depend on the needs of the target population, the scaling abilities of the service providers, and the budget appetite of North Carolina. Here, we recommend some best practices for the typical scale of a PFS contract:

- *Budget:* While the size of the project should be tailored to its unique components (e.g.: size of target population, capacity of provider), a larger-scale PFS project will allow the State to achieve greater economies of scale (e.g.: fixed legal, partnership management, and evaluation costs).
- *Timelines:* We recommend a PFS contract that lasts 4-7 years, in order to allow for sufficiently robust evaluation and scaling of services, while still maintaining a short enough time horizon to satisfy the needs and risk appetites of private sector investors.

Different types of investors will have different risk tolerances for investing in a PFS contract. For example, a grant-maker might have a higher tolerance for investing in a more innovative and promising program with less evidence, but may only be able to make a small investment. Alternately, a financial institution might be willing to make a large loan for a project with a strong evidence base and dependable partners, but may seek more frequent performance-based payments than a philanthropic investor. Social Finance identifies the optimal mix of philanthropic, mainstream impact investors, and commercial investors to develop a financial structure that adapts to the unique characteristics of the project, meets the needs of anchor investors, and fulfills governments' cost of capital requirements.

What promising policy areas, service providers and interventions could be candidates for Pay for Success contracts in North Carolina?

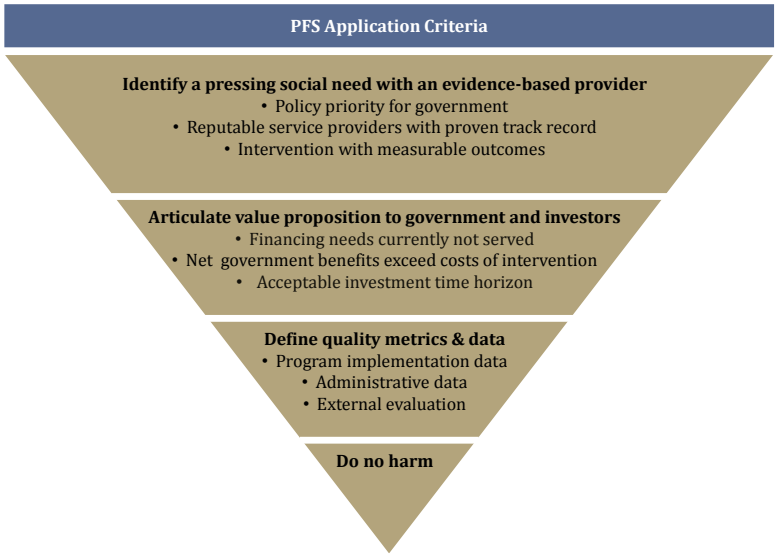
Pay for Success gives governments the ability to support high-impact service providers, drive new resources to effective social programs, and track outcomes for individuals and communities, without risking taxpayer dollars if those programs don't deliver results. While there are many potential applications of PFS, the most robust PFS projects have followed a similar process to the one listed below to help determine the best suited policy areas, service providers, and interventions.

In our experience, the PFS development process **starts by identifying a pressing social need**: for example, young, low-income, first-time mothers often do not have the resources and support systems to maintain healthy pregnancies and parent responsibly.

Second, PFS projects **partner with an evidence-based provider** that can address the pressing social need through a cross-sector collaboration. Without an evidence-based provider, it is difficult to structure a PFS project.

Third, in order to appeal to government and investors, projects define a **clearly-articulated value proposition for stakeholders**. PFS can help expand interventions to address policy priorities and/or help generate financial and social returns. If a cost effective evidence-based intervention can effectively align the interests of all partners, there is strong potential for government and investors to be mutually interested in financing the intervention via PFS.

Finally, **projects define performance metrics and datasets** that help assess impact and inform mid-course corrections to help monitor performance throughout the project.



In sum, North Carolina should consider providers and interventions based on their ability to impact key outcomes in policy areas of interest. Below, we highlight promising interventions across North Carolina's policy areas of interest for four target populations which the State may wish to serve via PFS: **(1)** children from pre-natal through 3rd grade; **(2)** formerly incarcerated individuals re-entering society; **(3)** veterans transitioning to civilian life; and **(4)** disconnected youth who are neither working nor in school.

1. Early Childhood

Some of the most persistent determinants of disparities occur early in a child's life. In North Carolina, for example, 65% of 4th grade students are reading below proficient levels, a figure that increases to 78% within lower income families.[1] Early childhood healthcare and education interventions seek to address these disparities, from providing prenatal and early childhood support for low-income mothers, to summer enrichment activities for children in grade school. Preventative interventions can generate significant short- and long-term public sector benefits in the form of reduced Medicaid and criminal justice costs, as well as increased educational achievement.

Nurse-Family Partnership. Nurse-Family Partnership™ (NFP) is an evidence-based early childhood and maternal health intervention that seeks to improve **(1)** pregnancy outcomes; **(2)** child health and development; and **(3)** economic self-sufficiency of the family. NFP pairs expectant mothers with a nurse who provides home visits from early in pregnancy until the child's second birthday. NFP is the product of 35-years of research and ongoing evaluations of the intervention. This research includes three well-designed randomized controlled trials that began in 1977, 1988, and 1994 with different populations and geographies, all of which have demonstrated that NFP achieves significant and sustained outcomes for high-risk families. By visiting high-risk

[1] "Early Reading Proficiency in the United States." *The Annie E. Casey Foundation*. Web. 7 Aug. 2015

pregnant women in their homes, the nurses establish relationships that positively modify her individual behavior and lifestyle. The NFP nurse's presence helps the early identification, referral and treatment of problems that might complicate a pregnancy or impede the health and development of a newborn child. Among a host of positive outcomes, NFP has been shown to reduce preterm birth, increase inter-conception health, and reduce infant injuries and hospitalizations.

The effects of NFP have been proven to generate a net benefit to society – both in financial and social terms – both within service delivery and throughout a child's life.[2]

Building Educated Leaders for Life. Building Educated Leaders for Life (BELL) exists to transform the academic achievements, self-confidence, and life trajectories of children living in under-resourced communities. BELL pursues its mission by partnering with schools to expand learning time. In BELL's summer learning programs, scholars participate in data-driven, small-group academic instruction in reading and math, afternoon enrichment activities, field trips, and community service. In 2005, researchers from the Urban Institute completed a two-year, randomized controlled trial of the BELL Summer program for scholars entering grades 1-7. The study found statistically significant evidence regarding the ability of the BELL Summer program to improve the reading skills of low-performing children.

BELL has grown to serve more than 4,500 scholars in four North Carolina districts this summer, and is targeting additional opportunities in the State. Current district partnerships have expressed a need for summer programming for students in the pipeline to third grade, focusing on students in grades K-3.

2. Criminal Justice

Increasing safety in our communities helps to generate public sector benefits by reducing arrests, incarcerations, and accompanying expenditures, as well as better outcomes for individuals and their families. One particular approach to increasing public safety is through the reduction of recidivism, or the likelihood that formerly incarcerated individuals participate in criminal activity following a release from a correctional facility. Successful re-entry following incarceration often depends on one or more of the following: a positive workforce reentry, access to affordable housing, and accessible mental health support.

Center for Employment Opportunities. High rates of unemployment and difficulty reintegrating into the workforce are significant challenges for formerly incarcerated individuals. Studies consistently show that unemployment is a reliable predictor of whether or not an individual will recidivate, and that individuals with an employment record prior to incarceration are significantly less likely to recidivate.[3] Nationally, 60% of formerly incarcerated individuals are unemployed one year after release.[4]

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[2] A 2005 RAND Corporation analysis found a net benefit to society of $34,148 (in 2003 dollars) per higher-risk family served, with the bulk of the savings accruing to government, equating to a $5.70 return for every dollar invested in NFP. In a 2011 study by the Washington State Institute for Public Policy (WSIPP), Nurse-Family Partnership ranked among the highest programs reviewed in terms of net benefit to society among pre-K, child welfare, youth development, mentoring, youth substance prevention and teen pregnancy prevention programs. A 2012 cost benefit update by WSIPP estimated long-term benefits of almost $23,000 per participant.

[3] CEO and MDRC, 2006.

[4] CEO and MDRC, 2006.

The Center for Employment Opportunities (CEO) is a transitional jobs model that has demonstrated significant impact through rigorous evaluation. CEO has over 30 years of experience, with its largest operation in New York City. The organization launched nine offices between 2009 and January 2014 in upstate New York, California and Oklahoma. In each site, CEO has developed strong partnerships with local parole and probation offices to target populations at higher risk for reoffending.

In the CEO model, individuals are referred by parole and probation officers and community-based organizations. Upon referral, participants enroll in a five-day Life Skills Education course and then are assigned a paid, transitional job on a CEO-supervised work crew. While developing workforce readiness skills, participants also meet with a Job Developer or Job Coach once a week to support the job search process. Once participants are hired in a full-time, unsubsidized job, CEO provides job retention services for one year.

Analysis suggests that for every $1.00 spent on transitional job reentry programs, approximately $1.70 in value is generated for government and society. Much of the return on investment (ROI) is driven by a reduction in State prison bed days.

3. Veterans

North Carolina is home to roughly 800,000 of the 22 million military veterans in the United States: more than 200,000 service members have left the military each year since 2008, and experts project that this figure could increase to as many as 300,000 annually over the next five years. A significant number of these new veterans face unique health, housing and employment challenges which prevent them from a productive transition to civilian life.

In May 2014, Social Finance, in partnership with Bank of America, conducted a first-of-its-kind feasibility study assessing the viability of using PFS to expand evidence-based services for veterans in the areas of employment, wellness and housing. The study included more than 80 interviews with leaders across multiple sectors (military, finance, government, academia, nonprofits, and philanthropists), and screened more than 70 organizations. Two of the highest impact interventions are identified below.

Permanent Supportive Housing. Permanent Supportive Housing (PSH) is an intervention that provides housing as well as social services to help those with complex challenges maintaining stable housing. In civilian applications, PSH services typically include treatment for substance abuse, mental disorders and severe physical disabilities. In the case of veterans, services may include treatment for PTSD, anxiety disorders, substance abuse, MST, and other challenges war veterans face. Multiple RCTs have been conducted on the efficacy of permanent supportive housing and housing vouchers; a 2003 study focusing specifically on veterans found that those leveraging a federal housing voucher program experienced 36% fewer days homeless than standard care control groups.[5]

Individualized Placement and Support. Individualized Placement and Support (IPS) is a program that delivers rapid employment services and wrap-around therapeutic support and has robust evidence including a randomized control trial with veterans. Outcomes generated by the

[5] Rosenheck R; Kasprow W; Frisman L et al: Cost-effectiveness of supported housing for homeless persons with mental illness. Archives of General Psychiatry 60:940–951, 2003

IPS program directly link to government benefits (e.g. lower unemployment payments) as well as societal value (e.g. better employment rates). IPS has successfully been implemented at scale in the civilian population, and given recent success with treating veterans, a network of Veterans Health Administration (VA) Medical Centers and VA Community Outpatient Clinics have expressed interest in offering the program.

4. Disconnected Youth

There are many pockets of the population in the State that could benefit from effective training and the opportunity to meaningfully engage with the labor market. One sub-population is the "disconnected youth", or persons aged 16-24 who are neither working nor in school or college. Experts estimate about 5.5 million opportunity youth nationally. In North Carolina, an estimated 14.7% of 16 to 24 year olds fall into this category.[6] These "lost youth" result in significant short- and long-term loss in benefits for society. Taxpayer loss is estimated at $13,890 per youth per year; social cost is even greater: $37,450 per year.[7]

Becoming A Man. A growing body of research has shown that interventions focusing on "social-cognitive" skills have had tremendous success reducing violent crime, increasing academic achievement, and improving workforce preparedness. Becoming A Man (B.A.M) is a dropout and violence prevention program for at-risk male students in grades 7-12 in Chicago. B.A.M offers in-school programming, in some cases complemented by after-school sports, to develop social-cognitive skills strongly correlated with reductions in violent and anti-social behavior. Participants learn about and practice impulse control, emotional self-regulation, reading social cues and interpreting intentions of others, raising aspirations for the future and developing a sense of personal responsibility and integrity. The after-school sports component reinforces conflict resolution skills and the social and emotional learning objectives of the in-school curriculum.

A recent randomized controlled trial conducted by the University of Chicago Crime Lab showed that B.A.M. reduces violent crime arrests by 44% and increases future graduation rates by 10-23%.[8] Additionally, when combined with rigorous individualized tutoring, B.A.M. improved student math test scores by the equivalent of about three years of learning for the typical American high school student, and reduced course failures by 57%.[9]

Functional Family Therapy. More than 20,000 youth age out of foster care in the United States each year. They are separated from their families and communities, fall behind in school when credits don't transfer, and experience challenges reintegrating after placement. A wide body of evidence has shown that children placed into foster homes and family settings are more likely to have better long- term outcomes than children placed into group and institutional care. Congregate care placements not only result in worse outcomes but also are five to seven times the cost of family-based placements. Functional Family Therapy (FFT) is an intensive, three- to five-month treatment that works with youth, aged 11 to 18, with behavioral offenses, substance abuse needs and/or history of juvenile justice involvement. The family-driven model views youth behavior as serving a function within the family and requires the active participation of the caregiver or parent. FFT can be administered as an alternative to incarceration or out-of-home placement and is most

[6] http://www.coweninstitute.com/wp-content/uploads/2015/03/Cowen_OY_Data_Guide_2015.pdf

[7] http://www.civicenterprises.net/MediaLibrary/Docs/Belfield-Levin%20Economics%20Investment%20OppYouth%20Sept%202012.pdf

[8] http://www.youth-guidance.org/our-programs/b-a-m-becoming-a-man/

[9] University of Chicago Crime Lab, "Urban Education Lab's Current Large-Scale Study of Becoming a Man" Accessed at: https://crimelab.uchicago.edu/page/urban-education-lab%E2%80%99s-uel-current-large-scale-study-becoming-man-bam-and-match-tutoring

effective when offered as soon as a problem is identified. It typically includes eight to twelve one-hour therapy sessions with the youth and caregiver, often held in the home on evenings or weekends.

Preliminary ROI analysis for FFT indicates that for every $1.00 invested, there is approximately $3.80 in value generated. This value accrues to multiple levels of government, with the State being the largest beneficiary. The evidence base for FFT is strongest for delinquent youth.

What opportunities exist to partner with local governments to achieve benefits at multiple levels of government?

Often, PFS projects support interventions that achieve benefits at the local, state, and federal levels of government; however, to date, projects have been driven mostly by one level of government. We recommend that the State consider the high probability of intra- and inter-government benefits for a given intervention. Creating a strategy to pay for outcomes that generate benefits at the local, state, and federal level and across State agencies will allow the State to participate in a broader range of PFS transactions.

Which variation on PFS contracts should North Carolina consider?

PFS financing has typically been used for human service programs that do not have traditional revenue generating activities, and therefore, sustaining services without government or philanthropic support would be challenging. In the current paradigm, it is often assumed that when a PFS contract achieves its desired social outcomes, the State will continue to fund the social program (via a second PFS contract or through more traditional means) after the completion of a PFS contract. Variation 1, as described in the PFS RFI, is different in that it assumes the State will stop funding the social program, even when desired outcomes are achieved, and expect the social program to sustain its operations through earned revenue or private donations.

In our opinion, one of the most valuable benefits of PFS is its option value for government. If predetermined outcomes are achieved, government can further scale the social program and achieve outsized impact through a proven intervention. By implementing Variation 1, a government would lose most if not all of its option value. If North Carolina were to consider Variation 1, below are two possible ways for the successful social program to further scale its services via PFS without continuing support from the State:

1. **Ever-greening investment to maximize impact**. Philanthropic investors can pledge to recycle returned principal and return on investment from the PFS project to support and scale additional service provision in the future in the same jurisdiction, by the same provider.

2. **Federal participation as outcomes payor.** A federal level payor might be willing to fund the social program following a successful PFS deal if the achieved outcomes were desirable to the federal government. An example is a health care intervention that is found to improve the health outcomes of Medicaid beneficiaries. A federal level payor can consider giving North Carolina access to the value generated to the federal portion of the FMAP (federal matching funds allocated to state medical expenditures).

State of North Carolina
Pay for Success RFI- 49GOVPFS2015

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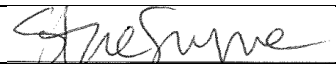
City&State&Zip:	**Raleigh, NC 27608**	**Telephone Number :**	**919-322-0012**
Type or Print Name and Title of Person Signing:	**Steve Swayne, CEO**	**Fax Number:**	**919-571-2879**
Authorized Signature		**Date:**	**August 11, 2015**

Background

Over 25 years ago, StepUp Ministry was formed to serve the homeless. Since then, the mission has evolved and now our goal is to prepare, equip and secure life-long stability for disadvantaged and vulnerable adults and children. We accomplish this goal through our Jobs and Life Skills programs. Our program model empowers individuals and families to overcome challenges to employment and gain long-term stability to ensure a better life for them.

StepUp has grown from our founding office in Raleigh to another site in Greensboro as well. We are currently in Phase I of our replication plan which includes a StepUp Durham office opening September 2015. Additionally, in Phase II, StepUp will expand to 17 more cities around North Carolina. StepUp North Carolina was formed in January 2015 to be the backend provider for financial management, human resources and fundraising.

StepUp primarily works with low-wealth people to build promising futures and break the cycle of poverty. Our participants will have previous issues that range from criminal records, underemployment, spotty work history, substance abuse and homelessness. 48% are homeless and 99% live below the poverty line. Additionally, 75% have a criminal past, 42% have previous substance abuse issues, and 72% lack a high school degree, 55% are females and 90% are African American. We equip them with all the skills to be successfully employed through our Jobs Program.

Our Jobs program includes opportunities for ex-offenders to increase their employability. Ex-offenders usually have a harder time finding a job, and often fall back into old habits and return to jail. In the past five years, over 1,700 have been trained in StepUp Raleigh and Greensboro sites and less than 2% have returned to jail compared to the North Carolina recidivism rate of 41%.

StepUp begins by preparing people for employment through our week-long Jobs Program. Upon completion of the one-week StepUp Jobs program, an employment counselor is assigned to the unemployed adult. The counselor touches base with the unemployed adult on a weekly and often daily basis until employed. Once employed, the counselor touches base with the employer and the employee on a weekly and monthly basis. Once in a job, the newly employed adult can now take a one-year life skills class with a deep emphasis on career development.

StepUp's largest partners in the program are the local businesses, universities and corporations who employ our participants. Over 235 Raleigh businesses and 120 Greensboro businesses rely on StepUp as an employment-screening agency to provide qualified job candidates. Some of our major employers include Home Depot, Cisco, UPS and NC State University. StepUp Durham is in serious discussion with

Duke University, the largest Durham employer (20% of the county is hired by the University) to establish jobs for our participants. We have also secured commitments from Measurement Inc and Brain Supply as employers.

StepUp has developed a model for empowering low-income people to overcome challenges to employment, create economic success and provide a future for their families. Over the past 5 years, 2000 participants in our Jobs program have successfully obtained employment, with 81% retaining employment after 6 months and 76% after a year. We have engaged over 1,000 volunteers, 30 partner congregations and 15 non-profit service providers, and raised $5.5 million dollars in support of our program over the same period.

What role would your organization have in a pay for success contract?
In this potential Pay for Success contract, StepUp Durham is proposing to become the external organization and co-provider. We have identified Durham Workforce Development Board's NCWorks Career Center System as the other co-provider for a collaborative evidence based randomized study. The Board plans and guides NCWorks activities through an administrative entity – the Durham Office of Economic and Workforce Development. There are 22 other workforce development boards throughout the State of North Carolina that plan and guide local workforce development programs with funding coming from various sources, but primarily federal sources that emanate from the United States Department of Labor. NCWorks provides job training for the underemployed and unemployed. The program has a goal of placing at least 70% of adults in careers in high growth industries with at least livable wages and chances for retention and advancement. This may involve placing participants into short or long-term training programs. .

For students who enroll in NCWorks the process of placing them in will include an assessment, HRD/Workforce Development employability skills, Career Readiness Certificate, career coaching with career exploration; skills gap training, and job referral services.

The two organizations will join under a memorandum of understanding in 2015 – 2016 program year. NCWorks will continue its focus on a more universal population of job seekers, whereas StepUp has a more specific role with those that have multiple barriers and tends to provide more intensive career coaching, counseling and case management, since their population has more intensive needs. The two organizations will complement each other because NCWorks will continue to provide services but make referrals to StepUp in cases where participants have more intensive needs and multiple barriers to employment (such as homelessness, substance abuse issues or past criminal convictions). Whereas NCWorks operates with a blend of individual, group, self-service and virtual participant engagement methods, StepUp will operate in purely group and individual modes, enabling a differentiation of service delivery that allows each entity to compliment the other.

Combined, the StepUp Durham Jobs program and NCWorks Career Center Programs will serve over 5,000 low-income unemployed participants over a two-year period.

What potential partners have you identified to fill other roles?
The University of North Carolina-Chapel Hill School of Social Work has agreed to serve as the evaluator. The research-based school is focused on intervention research that leads to cutting-edge innovation and intervention that will be benefit populations. The collaborative study will examine the strengths and weakness of the providers. Their research of this study intends to produce general data on:

- The effectiveness of the providers partnership,
- Creating an innovative workforce development model.

StepUp has also identified a number of potential investors including the John William Pope Foundation, and The Merrill Lynch Foundation.

What experience does your organization have working with government entities?
Since 2008, StepUp has spent countless hours working with federal, state, county, and city entities from funding collaborative to volunteer initiatives. Some examples include:

- US Department of Labor. Homeless Veterans Grant for 5 years. StepUp placed over 500 homeless vets in employment during that time. $300,000 /year grant.
- NC Works. From 2009-2012, StepUp and Capital Area Workforce Development board partnered each year for StepUp to place over 200 ex-offenders in work. $200,000/ year grant.
- Wake County. From 2010-2014, StepUp received funding from Wake County to train 50 families a year in life skills training. $50,000/year grant.
- City of Raleigh. For the past 15 years, StepUp has received $50,000 from the City of Raleigh to place 100 past substance abuse users in employment.

What experience does your organization have in implementing or evaluating initiatives?
Currently, StepUp is implementing their own initiative to replicate their program across the state. In 2014, a 3-year replication study by local business leaders was completed and now represents our best efforts to take the methods developed by our current sites and replicate them on a statewide in order to help obtain employment with livable wages for the least-advantaged statewide. Our plan calls for measured growth and investments in communities that have significant local interest and the highest potential for success, rather than opportunities driven by single funders or other limited factors. It recognizes to be successful, it is essential to establish relationships with local leadership, partnerships, and funders, for local community members are most able to assess the needs of the community, cultivate support, and sustain a successful program.

So far, we have two thriving sites in Raleigh and Greensboro. The success of our newest site in Durham will determine when and where the next Phase of our replication plan will take place. StepUp uses a meticulous tracking system to track program outcomes and give us a true picture of how each site is performing.

StepUp tracks all data in Salesforce, a unique transparent client management system. StepUp has been using this system for six years and our staff is extensively trained in the importance of tracking and measuring program outcomes. StepUp has identical tracking for all of our current sites and will implement this same tracking at StepUp Durham. We track the number of participants entering StepUp's Job Training Workshop; demographic characteristics of participants; the number of job placements annually; the per hour wage of those placed in jobs; how long a person remains in the job. For those who continue to our Life Skills program, we develop individual development plans for each Life Skills adult and child participant, we track growth in the areas of: financial literacy, goal setting, supportive relationships, transportation, safe and affordable housing, and access to necessary resources.

By examining how well a combined StepUp/NCWorks Program works, UNC School of Social Work findings could inform the State about whether replication of this combined model would be worthwhile

statewide in other regions where there are NCWorks Career Center Systems that are planned and guided by workforce development boards and their administrative entities.

Other relevant information about your organization, including potential or actual conflicts of interest if your organization is selected for future procurement?
StepUp does not anticipate any potential or actual conflicts of interest if we are selected for future procurement.

What outcomes should the state pursue?
The state should pursue outcomes that will measure the economic impact that the program will have on it's clients as well as the quantity of service each provider can fulfill within the span of the two-year study. Outcomes should include results

- The number of job placements achieved
- The program cost per participant
- The percentage of participants maintaining employment after 6 months and 1 year
- The average salary per job
- The recidivism rate among ex-offenders who complete the programs

It would also be of value to track the industries/occupations where participants are employed.

What evidence exists for a baseline comparison?
StepUp and NC Works will provide results from previous program years to The UNC School of Social Work for baseline comparisons. Here is an example of StepUp's results from last year:

- The number of job placements achieved: 554 in Raleigh and Greensboro.
- The program cost per participant: $1223 for our one-week Jobs Program
- The % of participants employed after 6 months: 81%
- The % of participants employed after 1 year: 76%
- The average jobs salary per job: $10.24
- The recidivism rate of those who finish: 4.5% (2412 ex-offenders in 5 years, 112 return)

What investment would be required for investors?
The required investment for this two-year evidence-based study would by $300,000 from private investors. The study is expected to cost $600,000.

What payments would be expected from the state?
The state would be expected to make payments in the amount of $300,000 as well. StepUp has agreed to privately fund $300,000 and is seeking a match of $300,000 for this study. StepUp anticipates the cost of the two-year study to be $600,000 based on research done in the past on the cost of an evidence based study.

What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?
The opportunities are clearly at the level of partnering with the workforce development staffs in Raleigh, Greensboro and Durham where the staffs could pursue and follow 200 people without the state having to hire more employees.

How should the state measure and pay for success?(cashable savings, well being benefits, willingness to pay)?What metrics should the state use?
This two-year evidence based study can produce a number of outcomes that will be valuable to the state in moving forward with policies on employment services and workforce development. In terms of cashable savings metric, comparing the amount of unemployment wages potentially collected by the program participants versus the actual costs of the program per participant could be a considerable savings for the state. Also comparing the recidivism rates among the participants in the study versus the Durham county recidivism rates to determine to potential cost savings to the criminal justice system. And, determining the amount of income tax paid to the state by study participants will show a cashable savings as well.

The state should also use the willingness to pay metric which will show the value of the study to policymakers and the public. It will greatly inform policymakers on employment services and workforce development throughout the state. And, it will provide the public, especially those in our target population a viable option for job training and employment. The state can look at the percentage of participants employed and maintaining their employment after 6 months and one year to determine the value to the public.

What time period should the state set for intervention and evaluation?
In order to evaluate the study comprehensively, the state should set a two year time period for the study to be completed. This will ensure that the evaluator will have a comprehensive data to evaluate the study. The evaluation should be set on a yearly basis to provide a reliable sample of data from each provider.

At what interim dates should the state evaluate outcomes?
The state should evaluate outcomes on an annual basis to ensure the participants have ample time to complete the provider's programs and be employed for at least six months. The first evaluation should be completed during the 13th month and the second evaluation should be completed at the end of the study.

What is the expected actuarially-based cost per individual without intervention and what is the cost per individual to achieve the desired outcome?
Based on StepUp's overall expense budget and divided by the number of people served at our Raleigh site last year, the cost per individual to complete StepUp jobs program would be $1200. To complete the one-year life skills class, the total cost would be $5000.

If a new program, how would it expand through scale or replication?
This program has proven to be replicated in other cities in the state. StepUp is already in Phase 1 of a two-phase replication plan to expand statewide. We currently have sites in Raleigh and Greensboro. Once, Phase 1 of our replication is deemed successful with the addition of a viable Durham site in September 2015, StepUp has plans to expand up to 20 new sites in Phase II including sites in Charlotte, Asheville, Wilmington and Fayetteville.

What role would the state have in continuing the program?
If the state saw value in the public-private partnership between StepUp and NC Works, StepUp would want to partner with as many NC Works branches around the state as possible. StepUp is currently becoming a statewide, private workforce development non-profit and intends to partner with NC Works long-term.

What continuing role would your organization have in continuing the program?
StepUp would continue to be the external organization as well a provider for this program.

What would the ongoing costs of the program be?
The ongoing costs are dependent upon each StepUp city site to raise its private funds from its board and management team. For the state of North Carolina, a one-time cost would be asked of the state if the state of North Carolina is pleased with the results of the evidenced based study with StepUp. At the end of that 2-year study, StepUp would seek to partner with the state on a one-time social bond request to assist StepUp in starting locations around the state. As part of StepUp's business plan, StepUp is seeking to raise $10M to start StepUp locations in 20 cities around the state.

Response to the State of North Carolina Request for Information: 49-GOVPFS2015 Pay for Success Initiative August 11, 2015

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Third Sector
capital partners

Third Sector
capital partners

EXECUTIVE SUMMARY

Third Sector Capital Partners, Inc. (Third Sector) is a nonprofit organization focused on driving America towards a performance-driven social sector, and we are excited that the State of North Carolina is joining other pioneering governments in exploring Pay for Success (PFS). Over the last few years, Third Sector has had numerous conversations with North Carolina based social service providers, public policy experts, local government leaders, and private funders about the opportunity that PFS offers North Carolina government and citizens.

Third Sector believes that Pay for Success in North Carolina has the potential to:

- Support the startup and scaling of evidence-based social service programs that target the most vulnerable and hardest to serve North Carolinians;
- Increase government accountability by directing tax payer resources toward programs that generate measurable, positive societal outcomes and economic value; and
- Measurably improve the lives of North Carolina's most in need.

Third Sector potential roles in advancing Pay for Success in North Carolina include:

- Collaborating with government stakeholders to develop a North Carolina roadmap for executing a PFS project;
- Fundraising a "NC PFS Development Fund" to support PFS feasibility, project development and startup;
- Educating North Carolina service providers, funders, & political leaders on PFS; and
- Leading and coordinating the launch of a state-wide North Carolina PFS project(s).

In order to advance the State's PFS initiative, we plan to leverage our local knowledge of North Carolina service providers & issue areas alongside lessons learned from our diverse PFS work across the country. We have preliminarily identified three promising evidence-based interventions, and would appreciate the opportunity to work with the State to explore these and other potential PFS projects. We welcome any conversations that the State would like to have about the PFS concept.

BACKGROUND

About Third Sector Capital Partners, Inc.

Founded in 2011, Third Sector is a 501(c)(3) nonprofit that advises governments, high-performing nonprofit service providers, and private funders in building collaborative, evidence-based initiatives that address society's most persistent challenges. As experts in implementing innovative public-private financing strategies, Third Sector is an architect and builder of several of the nation's most promising PFS projects including the Commonwealth of Massachusetts, Cuyahoga County Ohio, and Santa Clara County California. Third Sector is a proud grantee of the Corporation for National and Community Service's Social Innovation Fund.

Our team of 34 brings extensive experience in financing and contracting across the public and private sectors. Our staff includes a former Undersecretary of Public Safety, the Director of the Office of Technical Intelligence for the Department of Defense (US Air Force Reserve, Lt. Colonel), the Head of Public Finance for JP Morgan, and a member of the founding team of Capital One. We are well versed in managing projects in collaboration with diverse groups of public & private stakeholders, economic modeling, fundraising, and program evaluation/data analysis. Third Sector has offices in Boston and San Francisco, with clients across the United States. On a personal level, our team has strong North Carolina educational and familial roots, with a deep passion for the Old North State. We hope to leverage this passion working alongside government and service providers to drive North Carolina public and private resources towards measurable results for communities.

Third Sector
capital partners

What experience does Third Sector have with working with government entities?

Third Sector has provided advisory services on three launched PFS projects to date and over 37 PFS projects currently under development. These projects cut across multiple issue areas, geographies, and government entities/jurisdictions, a sample of which are described below:

Exhibit 1: Third Sector's PFS Government Advisory Work

Government	PFS Government Leadership
Federal	▪ **Leveraging millions in Federal Fund Grants for State & County PFS Projects:** o Department of Labor: Massachusetts Juvenile Justice PFS Project (launched) o Department of Health & Human Services: MOMS New Haven Partnership PFS Pilot o Corporation for National & Community Service (CNCS): From the Social Innovation Fund to support PFS feasibility projects ▪ **Advising the Federal Department of Health & Human Services on PFS and Medicaid**
State	▪ **Launched Projects: Massachusetts $28 mm Juvenile Justice PFS Project** o Issue Areas: Recidivism and Employment for at-risk youth o Served as project feasibility advisor, construction coordinator, intermediary/manager ▪ **PFS Construction Projects:** o Illinois: Services for youth dually-involved in child welfare and juvenile justice systems o Connecticut: Local mental health services for underserved, low-income, depressed mothers o New York State: Alternatives to incarceration for justice-involved youth ▪ **PFS Feasibility Projects:** o Virginia and Washington State: Pre-natal care/home visitation o Nevada: Early childhood education o Oregon: Averting children from entering the child welfare/foster care system
County	▪ **Launched Projects: Cuyahoga County, OH & Santa Clara County, CA:** o Child Welfare & Family Homelessness (Cuyahoga) and Chronic Homelessness (Santa Clara) o Served as government advisor & PFS project transaction/construction coordinator: ▪ Analyzed target populations & potential intervention; selected provider via RFP ▪ Performed due diligence, economic modeling, funding coordination, final negotiations and final PFS contracting coordination ▪ **PFS Construction Projects:** o Salt Lake County, UT: Government advisor, project development fundraiser, and transaction coordinator for three projects – Criminal justice, homelessness, and child/maternal health ▪ Fundraised "PFS Development Fund" via private investors – to fund feasibility work ▪ Developed service provider RFPs and formally procured two providers to date ▪ **Projects under PFS Feasibility:** o Los Angeles County, CA: Recidivism and Housing ▪ Developed the "LA County PFS Blueprint" outlining how the County should develop one or more PFS projects; performed landscape scan of PFS opportunities o Austin/Travis County, TX: Child Welfare & Health

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Federal Social Innovation Fund Award
In 2014, Third Sector won a $1.9 million award from the Corporation for National and Community Service's Social Innovation Fund. Through a national competition, Third Sector selected nine awardees to receive technical assistance (from Third Sector) to complete PFS feasibility assessments within the early childhood health/education and workforce development issue areas. These projects span diverse geographies, including Virginia; Austin/Travis County, TX; Oregon, Washington State, Nevada, and California. Third Sector will release a second national competition in fall 2015 to select additional governments to receive PFS technical assistance support.

Additional Government Advisory Work: "PFS Blueprinting"
Third Sector's government advisory work also involves collaborating with government stakeholders to align existing government protocols (e.g. procurement, contracting, budgeting/appropriations) for PFS. In Los Angeles County for example, the "LA County PFS Blueprint" provides relevant County political and operational stakeholders with a customized tool for conceptualizing, evaluating (feasibility), constructing, negotiating, funding, and ultimately launching a PFS project in Los Angeles County. For the largest county in the US (with a population size similar to that of North Carolina), laying out clear internal processes has helped to:

- Streamline and regulate the PFS development process across County systems and departments
- Drive government process efficiencies: PFS feasibility and construction activities are easily coordinated across departments and aligned with existing internal legal & financing processes of the County

What role would Third Sector play in a pay for success contract?

There are a variety of roles that Third Sector could play to advance PFS in North Carolina. Past government clients have found value in partnering directly with Third Sector in order to navigate the complexity of the PFS development and contracting process. Our Pay for Success advisory services are structured around four major pillars: **Feasibility** (for governments or providers), **Construction**, **Project Management**, & **Education**. We would be proud to provide North Carolina with any combination of the services described below in an effort to ensure a seamless and efficient PFS project development process:

Exhibit 2: Third Sector's Potential Role in a Pay for Success Contract - *including but not limited to:*

Role	Description	Past Projects
Government Strategy & Project Feasibility Advisor	• Source and assess the feasibility of potential North Carolina PFS project(s) • Work with NC government stakeholders to develop "NC PFS Blueprint": guidelines for efficiently assessing, constructing, & launching a PFS project in North Carolina • Raise a "NC PFS Development Fund" to provide stable funding for NC project feasibility assessments, construction, and project start-ups	• Orange County, CA childhood home visiting PFS feasibility • LA County "PFS Blueprint" and feasibility • Salt Lake City "PFS Development Fund"
Project Construction & Launch Coordinator	• Develop outcomes based economic (cost/benefit) and operational model • Ensure intervention operational & outcomes evaluation plan developed • Work with NC government stakeholders to secure formal end-payer appropriations • Conduct private funder outreach and arrange funder support for the project • Arrange & coordinate multi-party negotiations and PFS contracting prior to launch	Launched Projects: • Massachusetts Juvenile Justice • Cuyahoga County Partnering for Family Success • Santa Clara County Homelessness
Launched Project Manager & Advisor	• Work with NC government, funders, service provider, and project evaluator to manage a successful project implementation (post-launch): – Operational performance monitoring (e.g. program referrals, operations) – Program risk management and conflict resolution • Serve as Special Purpose Vehicle (SPV) project function for handling project funds	• Project Manager & SPV intermediary for the Massachusetts Juvenile Justice PFS Project
PFS Educator, & Advocate	• Build awareness, understanding and adoption of the Pay for Success concept through presentations, trainings, advisory groups, and case studies: • North Carolina government stakeholders (State & local) PFS understanding • North Carolina service provider technical assistance & PFS awareness • Local and National private funders awareness and interest	• Partners on Federal grant with National Governor's Association, National Association of Counties, & National League of Cities • Published in *Governing Magazine* • Panellist at *White House Summit on Social Innovation* and other national conferences

What potential partners have you identified to fill other roles?

Third Sector is connected to a diverse network of potential PFS partners in North Carolina that are complementary to our work, including:

1. **Evidence-based Service Providers:** Family Connects (early childhood), Children's Homes Society of NC(child welfare), Corporation for Supportive Housing (supportive housing), Youth Villages (child welfare)
2. **Program Evaluators:** UNC-Chapel Hill School of Social Work, Duke Center for Child & Family Policy, ICF International, Abt Associates
3. **Private Commercial & Philanthropic Funders:** The Z. Smith Reynold's Foundation, Duke Endowment, Bank of America Merrill Lynch
4. **Government & Public Policy:** NC Association of County DSS Directors, National Association of Counties NACo, National Governor's Association, National League of Cities, ICF International, Fuquay Solutions

We are in regular communication with these potential partners, and where relevant would collaborate with them or others in order to source and execute a successful PFS project launch in North Carolina.

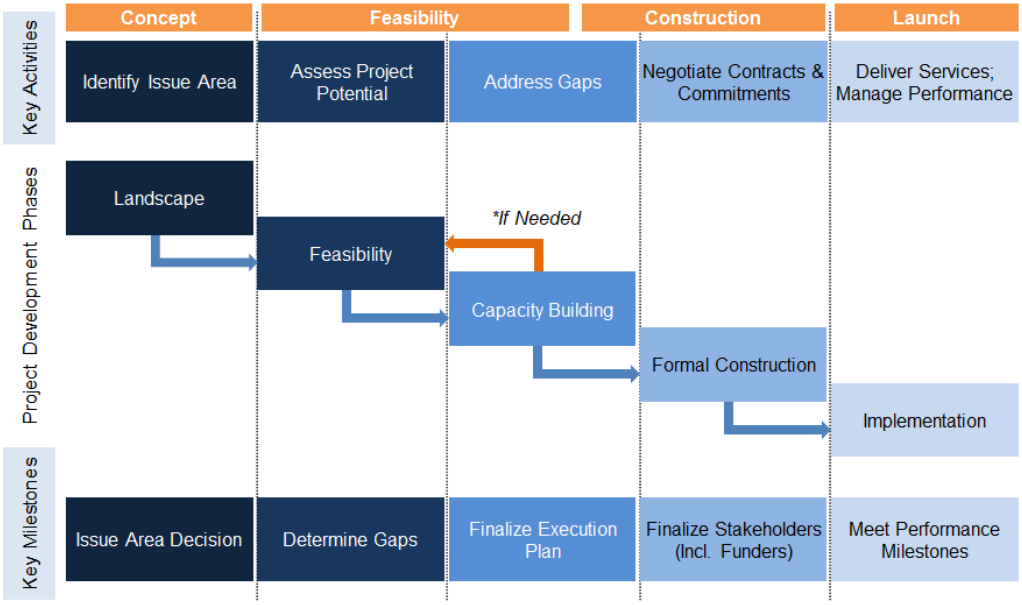
Third Sector's Potential Conflicts of Interest in North Carolina

To the best of our knowledge, Third Sector Capital Partners, Inc. has no conflicts of interests related to potential involvement in PFS advisory work related to the State of North Carolina. As a government advisor, Third Sector has been both procured by government and/or funded by a third party for its work on pfs feasibility and contract implementation across multiple issue areas. Third Sector has also responded to procurements jointly with service providers, then served as the project construction coordinator for that specific PFS opportunity with government.

What experience does Third Sector have in implementing and evaluating initiatives?

As outlined in Exhibit 1 above, Third Sector has extensive experience in implementing and evaluating PFS initiatives. In taking PFS initiatives from concept to launch, Third Sector has developed an end-to-end PFS development framework designed to ensure opportunities are properly identified, vetted, and capitalized. We encourage North Carolina to consider this (or a similar) framework as it proceeds with its own PFS initiative.

Exhibit 3: Phases of PFS Development



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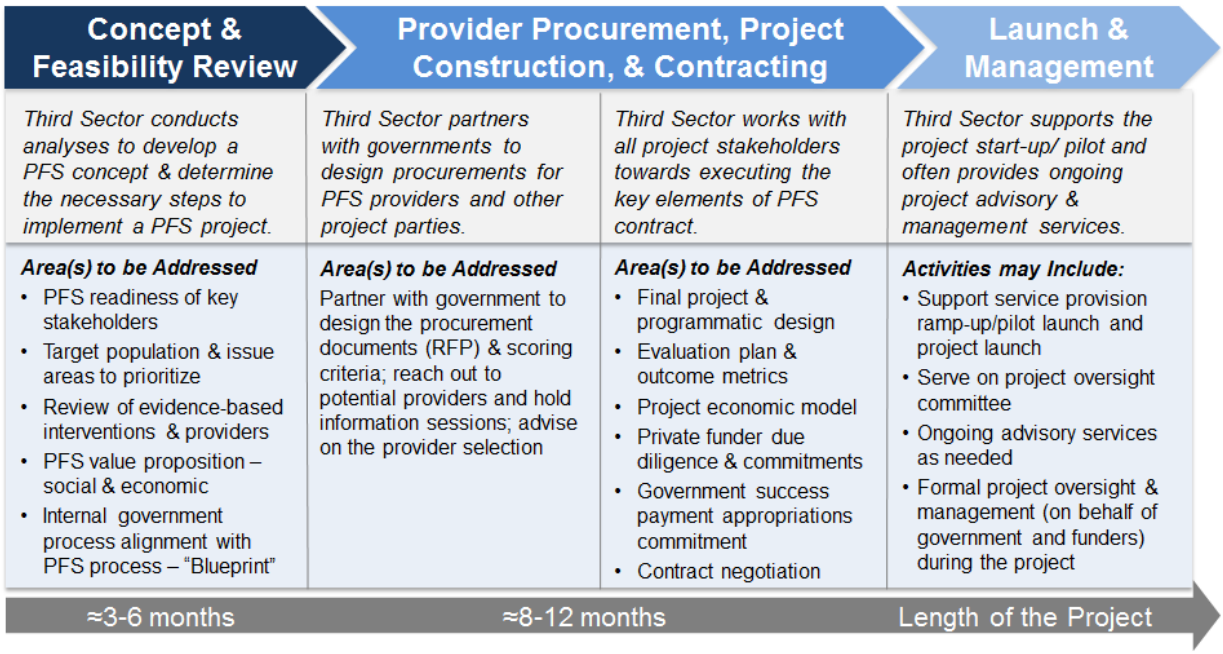
Third Sector's role in the phases of PFS development are illustrated in greater detail below. Each phase of work requires commitment from a variety of PFS stakeholders at different points in time, with the one singular constant throughout being strong government support and engagement.

Exhibit 4: Third Sector's Role in PFS Development



Feasibility: Essential groundwork for PFS contract development:

Our past experience has shown that projects that invest in in-depth feasibility assessments experience more efficient/productive project construction and can avoid having to troubleshoot implementation issues once a project is launched. During feasibility, Third Sector works with governments and other stakeholders to answer a core set of questions and then deliver a "Path Forward" recommendation for how best to proceed on a PFS initiative. We would work with North Carolina to address these questions early in its development of a potential PFS project. Feasibility questions include, but are not limited to:

- **Issue Area/Population Identification:**
  - Who exactly do we want to serve and why? What unmet need(s) need to be addressed?
  - Is there readily accessible and quality data to support the issue area and target population selection?
  - How is the target population currently served (cost)? Historical negative outcomes?
  - What is the economic case (cost/benefit) for the PFS project? End-payer commitment to outcomes?
- **Intervention & Provider Analysis:**
  - Are there evidence-based interventions that can positively impact the target population?
  - What is the scaling opportunity to meet unmet population need?
  - Does the intervention produce near term outcomes of interest to the government and private funders?
  - Which provider is best suited to implement a data-driven, outcomes focused intervention at scale?
  - How will the provider refer the target population into the intervention and ensure commitment?
- **Data Assessment & Access – for the Intervention & Evaluation:**
  - Will provider have access (from government) to quality data to refer & enroll target population?
  - Will the program evaluator have ongoing access (from the provider) to quality data to track outcomes?
- **Government End-Payer and Regulatory Review:**
  - Which government stakeholders need to be educated about PFS in order to ensure end-payer support?

  - What will it take to get the government to commit and appropriate success payments for a project?
  - What will Funders require from the government to manage success payment appropriations risk?
  - What government internal processes (multi-year contracting, procurement, data access, appropriations) need to be aligned to meet PFS requirements?
- **Funder Development:**
  - Is there private funder interest in the project issue area, target population, etc.?
  - Is there private funder appetite for the potential scale of the proposed intervention?
  - How will funders feel about the project's economic value proposition – success payments, risk profile?
  - What questions will funders ask during project due diligence?

Third Sector's value-add as a PFS advisor is derived from our ability to identify and address the key PFS questions up-front to ensure a successful transition to contract development and funder due diligence phases. .

WHAT OUTCOMES SHOULD THE STATE PURSUE?

Considerations for choosing PFS outcomes

When selecting and paying for PFS outcomes, Third Sector advises consideration of the following principles:

Payments must be based on outcomes, not outputs or inputs. The most profound feature of PFS is its shift to a procurement system that focuses on outcomes, not cost reimbursement or even outputs. A well-structured PFS contract frees up providers to innovate and invest in ways that a prescriptive cost reimbursement system simply does not permit. Additionally, PFS shifts focus away from output to outcomes achievement – for example, rather than focusing on the number of children in school seats (e.g. decreased absenteeism), focus on improved 3rd & 5th grade reading levels as a result of a reduction in school absenteeism.

Outcomes may balance social benefit & economic benefit. PFS is about improving social outcomes. These outcomes may have an economic cost/benefit justification, but all PFS contracts make payments based on clear, measurable *social* outcomes (i.e. reduced days of incarceration vs. a state corrections budget reduction of 10%, which is not controlled by private providers). This is important because some outcomes generate societal improvements with a diffuse savings link that are still valuable investments in prevention: e.g. high school graduation.

Outcome metrics can extend beyond those tied to success payments. For example, in Cuyahoga County, while out-of-home placement days are the success payment outcome metrics, the project also measures the contributions of housing stability, home visitation, and family meetings, thereby informing future County policy decisions.

Outcomes should be mapped clearly to the end-payer(s) who may benefit. Intervention outcomes have the ability to span multiple government departmental budgets and even political jurisdictions (county vs. state, county vs. county, state vs. federal). Understanding where the benefits of potential positive outcomes accrue to will be important when identify who will be in a position to pay for success (end-payer).

Potential PFS issue areas, interventions and outcomes for North Carolina to explore

Through our conversations with our network of national and North Carolina based PFS partners, we have identified three initial interventions that merit potential further exploration by the State:

Intervention 1: *Early Childhood with Family Connects*

- **Service Provider:** Family Connects – based in Durham but operating across North Carolina

- **Intervention:** Community based postpartum nurse home visiting program that provides support to the parents of every newborn in a community, at a low cost ($500-$700 per birth), and with demonstrated positive return on investment for families and communities
- **Potential Outcome(s):** 50 percent fewer infant emergency department episodes in the first 12 months of life than infants assigned as controls (RCT evidence base of 4,800 Durham families)
- **Evaluation Partner:** Duke Center for Child & Family Policy

Intervention 2: *Child Welfare with Children's Home Society of North Carolina*

- **Service Provider:** Children's Home Society of North Carolina
- **Intervention:** Community based, bundled service organization providing a portfolio of child welfare and family support services, including but not limited to: teen pregnancy prevention, parental education & support, intensive family preservation and reunification services, adoption placement support, post adoption support, mental health services, family support & self-sufficiency programs, and coordination with public social service workers – serves 12,000 clients per year
- **Potential Outcome(s):** Prevention of foster care placement, foster care placement to permanency (adoption), and post permanency support (post adoption) –HHS cost savings on a per day and per child in foster care
- **Evaluation Partner:** UNC-Chapel Hill School of Social Work

Intervention 3: *Supportive Housing with the Corporation for Supportive Housing*

- **Service Provider:** Corporation for Supportive Housing (CSH) – national organization with North Carolina presence and previous PFS experience
- **Intervention:** Housing assistance and tailored services to support a range of at-risk populations, including chronically homeless, veterans, families, and the elderly
- **Potential Outcome(s):** Reduction in chronic homelessness in urban areas, improved health and employment outcomes from the chronically homeless, support for child welfare programs (housing homeless families and reuniting foster children with parents)
- **Evaluation Partner:** To be determined (e.g. Abt Associates has expertise in evaluating housing programs)

Third Sector would seek to partner with these providers, the State, and potential evaluators to explore the PFS feasibility of these initiatives in greater detail. Third Sector would also work with state and county stakeholders to identify additional issue areas, interventions, and service providers of potential interest for North Carolina.

Other issue area considerations for North Carolina

Our work around the United States has shown that the most promising interventions are ones that address multiple issue areas and government systems, thereby generating the highest possible societal and economic impact. While more complicated to structure, PFS interventions across departments help to foster information/data sharing and general efficiency generating cooperation across traditionally siloed areas. Additionally, multi-departmental end-payers can broaden the potential success payment funding base for a potential project. Examples include:

- **Housing & Child Welfare:**
  - **Intervention:** Permanent supportive housing/housing first for homeless North Carolina families who had their children removed into the North Carolina foster care system
- **Health, Workforce & Veterans:**
  - **Intervention:** Mental wellness intervention with a strong workforce development component (& possibly supportive housing)– to stabilize veterans and prepare them for re-employment
- **Child Welfare, Education & Juvenile Justice:**
  - **Intervention:** Child welfare & development intervention (tied to family wellness) to improve child physical & mental health, education, and juvenile justice outcomes

What opportunities exist to partner with local governments?

In our past work, Third Sector has seen the value in cooperation across political jurisdictional lines (e.g. state and county). Our work in Los Angeles County is leveraging both a State and County government end payer to tackle recidivism. Our work in Oregon has two non-contiguous counties partner together to address child welfare. In North Carolina, Third Sector sees opportunities for county/state partnership across the multiple issues (non-exhaustive):

- **Criminal justice:** *Counties & the State are both impacted by recidivism*
  - **Intervention:** An intervention that 1) provides workforce development, 2) provides mental wellness support, and/or 3) supportive housing for prisoners post release may reduce recidivism
  - **Benefits:** Reducing recidivism may alleviate budgetary and operational strain on County and State corrections and policing efforts across North Carolina
- **Health care:** *Counties & the State share the costs of Medicaid funded healthcare provisioning*
  - **Intervention:** Holistic, preventative, focus on patient in near term – Connecticut's maternal mental health intervention leading to better health outcomes for children (e.g. fewer E.D. visits)
  - **Benefits:** Preventative healthcare focus in near term may reduce costly Medicaid usage in the future – County funded administrative costs and State funded service costs may fall
- **Child welfare:** *Counties & the State share costs (along with Federal government) of child welfare*
  - **Intervention:** Two-generational intervention that improves health (physical and mental) and strengthens families (affordable housing & workforce development) for mother and child
  - **Benefits:** Targeting at-risk family health & stability during the pregnancy/early childhood years may prevent future child welfare system usage (including foster care outcomes)
    How should the state measure and PFS

Lastly, recent enhancements to **NC Fast** could be leveraged by service providers and state & county HHS to develop a State/County level PFS project in the Health & Human Services issue area (e.g. child welfare, early childhood) via:

- **At-risk Population Targeting**: Clearly identify the most at-risk and vulnerable individuals (e.g. high system users) and enroll those vulnerable individuals currently outside the HHS system
- **Coordinated Case Management:** Closer coordination between case workers and a PFS service provider (e.g. Family Connects or Children's Home Society) – a holistic view of target population unmet needs
- **Outcomes Tracking & Evaluation:** Comprehensive and centralized data collection for evaluating target population outcomes, helping to determine a cost/benefit distinction between counties & State HHS budgets

HOW SHOULD THE STATE MEASURE AND PAY FOR SUCCESS?

How may outcomes be assessed?

Rigorous evaluation of outcomes is at the core of PFS. All too often, however, impact analyses of social programs appear to be compelling – even in the eyes of experts – only to be debunked when put to a more rigorous statistical test (especially at scale). The world is full of false-positive evaluations due to a number of factors: underpowered experimental designs, publication bias, low-fidelity execution, wishful thinking, regression to the mean, and others. Third Sector is particularly concerned that PFS contracts could be designed in conjunction with non-rigorous evaluation, in which case every party in the project might have "good news" to report and yet society (and government) would actually be worse off.

As North Carolina is aware, the gold standard in the social science literature for the measurement of outcomes is the Randomized Controlled Trial (RCT). When possible, this is what should be used in a PFS project. However, RCTs may not always be feasible due to implementation limitations and ethical concerns. In such cases it is possible to use quasi-experimental statistical techniques instead. Third Sector has done both in Massachusetts, with an RCT serving as the primary mode of measurement and a quasi-experimental secondary baseline evaluation as a backup.

Alternatively, payment metrics can be based on one methodology, while a rigorous RCT is run by the project in order to provide policy-makers with insight when deciding whether to scale the program. It is worth noting that all of Third Sector's launched PFS projects to date include an RCT component.

Measurement partners: Who should assess/evaluate outcomes?

Highly rigorous independent evaluators with a strong focus on baselines and comparison groups and a power to audit are essential to PFS. We firmly believe that only by having a trusted third party evaluator can the state and funders be sure that the effort and investment in the PFS project truly delivered its promised social impact. North Carolina has several excellent research universities that would be well suited to playing the independent evaluator role for PFS projects on an ongoing basis with the local commitment to the state. Third Sector has close relationships with the UNC School of Social Work as well as Duke's Center for Child & Family Policy. Should a suitable local partner not be found, Third Sector also has relationships with national evaluators (e.g. ICF International).

Paying for Success: Appropriation considerations

PFS describes a form of contracting where the state only pays on rigorously evaluated outcomes. The most common way of providing the upfront financing for such contracts so far has been via a financing structure referred to as a Social Impact Bond. In order to bring partners to the table, North Carolina will need to consider offering contractual terms that will bring comfort to investors that the State's obligations will be honored. These investors will be concerned with three major questions: **1) How North Carolina will commit to success payments 2) When should the success payments be appropriated; 3) Where North Carolina will store appropriated success payments.**

Managing appropriation risk is of particular interest to PFS private funders. Historically, governments have pursued a variety of appropriation policies for success payments, as illustrated in the table below:

Exhibit 5: Managing Government Appropriation's Risk[1]:

Government Appropriation Policy	Description	Level of Appropriations Security	Example
Full Faith & Credit	A clause that requires the legislature to honor PFS contract obligations as it would a State bond – or else face substantial credit rating agency implications	High	Massachusetts approved legislation to establish a "Social Innovation Trust Fund" (sinking fund) protected by the "Full Faith & Credit" of the State
Multi-year Appropriation	Government commits to a multi-year appropriation for success payments	Medium	In New York State's Prison Re-entry Project, the State appropriated an initial two-year's worth of payments
Designated Account ("Sinking Fund")	Establish a designated PFS success payments fund (sinking fund) that is pre-funded or has a an appropriations commitment for the future years	Medium	Cuyahoga County set up a sinking fund and committed to annual appropriations of potential success payments into said fund
Rating Agency Trigger	Government writes a contract in which earned success payments are "subject to formal appropriation," including a provision that it will report any failure to make payments to the credit rating agencies (voluntary)	Low	In the Chicago PFS Project, success payments from the Chicago Public Schools are subject to appropriation (as required by local laws), but any failure to do so would be reported on their CAFR to rating agencies

[1] *Source: Living Cities, retrieved from https://www.livingcities.org/blog/809-4-ps-of-pay-for-success-policy*

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Pricing for Success: Funders and Government considerations

A key question when engaging in PFS is: how can the project maximize government benefit while attracting funders? A PFS project incurs a variety of risks, such as performance risk, early shut-down risk, repayment risk and evaluation risk. Governments want to share these risks and maximize performance. Funders, on the other hand, usually want to minimize risk while maximizing payments. The way in which outcome payments are distributed between the State and different sorts of funders is hence key in ensuring that risk is fairly distributed and performance incentives aligned.

The first step towards sharing success is to first determine the value of success. When calculating the value of success, Third Sector works with the government end-payer, the service provider, and the evaluator to determine the:

1. **Value of success:** Typically, there are cashable benefits associated with a successful intervention outcome being met (e.g. reduced prison bed days as in Massachusetts)
2. **Cost of the intervention:** Determining the cost of an intervention is not just limited to operational expenses. Additionally, because interventions are almost never 100% effective; some intervention participants will generate negative social outcomes despite intervention $$ being spent (e.g. some individuals may re-enter prison system despite participating in an intervention)
3. **Cost of doing nothing (baseline comparison):** In addition to valuing the cost of intervention failure and success, we also ask ourselves "what's the value of existing negative social outcomes for this target population, were this intervention not to exist?"

Having determined a PFS project's net monetary benefit, the next-step is to determine how said monetary benefits should be shared with the risk-taking private PFS funders There are two main questions to ask when determining how outcome payments and risk should be shared between North Carolina and private funders:

1. How should value from the project be shared between private funders and North Carolina

To date, Third Sector has found that funders typically prefer to prioritize downside protection over upside opportunity. As an example, the Massachusetts Juvenile Justice Project funders are partially repaid if the intervention does not reach its success target of a 40% decrease in days in incarceration for the target populations. However, if the intervention is more successful than expected, the State retains a higher proportion of the savings generated. Third Sector has deep experience in using a variety of custom financial concepts to accommodate funder and government preferences, including success threshold payments, private success payment caps, catch-up payments, and funding stacks.

2. Who should bear the risk a project not hitting its outcome targets?

Third Sector firmly believes that a PFS contract must be used to incentivize better performance. We therefore think that it is of the utmost importance that all parties have "skin in the game".

- Funders should retain some performance risk, thus senior lenders should not have their investments entirely backstopped by philanthropic capital.
- Large service providers can stake a portion of their service fees on success rates, as was the case in the Massachusetts PFS Project with service provider Roca.

Thank you for the opportunity and for North Carolina's thoughtful exploration of Pay for Success. Third Sector looks forward to continuing the conversation as well as potentially sharing our expertise and project implementation skills to support North Carolina State directly in its pursuit of multiple PFS projects.

NC Pay for Success
RFI Response

August 10th, 2015

TRIANGLE RESIDENTIAL OPTIONS FOR SUBSTANCE ABUSERS

BACKGROUND

TROSA is a comprehensive, drug-free, two year residential substance abuse recovery program that has accepted substance abusers from every North Carolina county as well as the corrections and courts systems. Based in Durham, TROSA's program serves over 500 residents at any given time and includes vocational training, education, counseling, mentoring, leadership training, and continuing care.

Currently, North Carolina state funding represents less than 3 percent of TROSA's income for its two-year residential program. Eighty percent of TROSA's $15 million budget comes from vocational training businesses TROSA's residents operate. These "on the job training" vocational businesses include TROSA Moving, TROSA Lawn Care, and the TROSA Thrift and Frame Store. The rest of TROSA's income is derived mainly from private donations.

Bottom Line Up Front

TROSA is one of the country's most innovative nonprofit service models. TROSA is saving NC local and state government millions of dollars by providing residential substance abuse services and job training to individuals who would otherwise be involved in the state's prisons, courts, mental health system and jails. TROSA provides these services at significantly less cost than other state-funded services in the mental health system and the state prison system.

A state investment through *Pay For Success* will enable TROSA's program to continue to provide the services that save lives, put people to work and increase taxpayer savings of millions of dollars every year.

Executive Summary

Triangle Residential Options for Substance Abusers (TROSA) is a cost-effective, community-based substance abuse program that has served all NC counties in its 20 year history.

- In 2014 TROSA served citizens from 86 NC counties.

TROSA has saved and is saving NC local and state government, including mental health MCOs, millions of dollars annually by providing residential substance abuse services and job training to individuals who would otherwise be involved in the state's prisons, courts, emergency rooms, mental health system and jails.

- In 2014 TROSA provided over 146,000 days of treatment to 801 NC citizens.

TROSA provides these services at significantly less cost than other state-supported residential substance abuse treatment programs at no cost to the individual and achieves better outcomes for its clients in a myriad of key performance indicators.

TROSA has significant experience with *Pay For Success* initiatives to include working with investors, government, intermediaries or external organizations and has organically grown and strengthened year over year since its founding in 1994. In the developing world of *Pay for Success* financing, TROSA is best positioned to drive the first "win" in the country.

TROSA is a good investment for state taxpayers. By serving residents who would otherwise be incarcerated and/or seek services or care in more expensive facilities and programs, TROSA is saving North Carolina millions of dollars each year in avoided costs to its mental health, courts and correction systems. The current state funding level of $350,000 in TROSA translates to just over $2.50 per North Carolina resident per day of service – or less than 3.5% of the cost of serving North Carolinians seeking treatment at TROSA. By comparison, the cost per bed at the state's Alcohol and Drug Abuse Treatment Centers ranges from $212,000 to $236,000 (NC DHHS 2014 Budget). In addition, state facilities do not include job training or post-treatment housing, transportation and other support.

TROSA is also considerably less expensive than the state's prison system, where the cost of incarcerating a prisoner averages about $80 per day or $29,000 per year per inmate and where approximately 65 percent of inmates need intermediate or long-term substance abuse treatment (NC Sentencing and Advisory Policy Commission). Unfortunately, in 2011 only 24 percent receive this treatment, according to the NC Department of Public Safety. The cost of the treatment (in addition to the previously stated cost of $80 per day) ranges from about $16 per prisoner per day for standard in-prison substance abuse treatment but rises to $60 per prisoner per day at the NC Department of Public Safety's DART Cherry program for male probationers/parolees; and to more than $128 per prisoner per day at the Department's Black Mountain Substance Abuse Treatment Center for Women (NC Department of Alcohol and Chemical Dependency Program).

TROSA serves men and women who would otherwise be entangled in these other more expensive state and local services. Of TROSA's 500+ residents today, all have a history of substance abuse and:

- 50% meet the federal definition of "homeless" at entry
- 40% are on probation
- 90% have had an at least one arrest
- 65% have had an arrest for a felony offense
- 10% are veterans

Responses

What role would your organization have in a pay for success contract?

Per the model on page three of the RFI, TROSA could fill both *provider* and *external organization*.

What potential partners have you identified to fill other roles?

Per the model on page three of the RFI, TROSA has identified or worked with the following *partners*:

Government

- House of Representatives & Senate.
    - A myriad of legislative leaders are championing TROSA in committees as well as session.
- NC Department of Health and Human Services.
    - NC DHHS MH/DD/SA to include Ms. Courtney Cantrell and Mr. Dave Richard.

Evaluators

- Research Triangle International.
    - TROSA is partnering with Ms. Pamela Lattimore and her team to identify and track key outcome metrics. Ms. Lattimore is RTI's Principal Scientist; Crime, Justice Policy, and Behavior Program.
- NC Governor's Institute on Substance Abuse.
    - The Governor's Institute on Substance Abuse has contracted with Mr. Gary Massey, Partner at CliftonLarsonAllen, to quantify TROSA's outcome savings.

Investors

- TROSA has built a robust network of foundations and high net worth individuals interested in *pay for success* mechanisms.

What experience does your organization have working with government entities?

TROSA has an experienced and talented administrative staff to include former Government Executives, Analysts and Administrators that work with different levels and segments of North Carolina government for licensure, grants, contracts and aide.

Licensure

- TROSA is licensed as a Supervised Therapeutic Community by the State of North Carolina.

Grants

- Less than three percent of TROSA's budget is supported by a recurring state grant of $350k.

Contracts

In addition to TROSA being a licensed Therapeutic Community, the organization has the following contracts:

- NC Department of Public Safety
    - TROSA provides safe housing for up to 16 male, NC, probationers for 90 days
- Alliance Behavioral Health
    - TROSA provides safe housing for up to six men transitioning from crisis for 30 days.

- NC Department of Agriculture & Consumer Services (via USDA's Federal Emergency Food Program)

- TROSA has a contract with the U.S. Department of Veteran Affairs to support veteran housing.

Aide

- TROSA **does not** receive Medicaid funding.
- NC DHHS Division of Social Services
    - Some residents at TROSA can and do apply for Simplified Nutrition Assistance Program (SNAP).

What experience does your organization have in implementing or evaluating initiatives?

TROSA has a twenty year track record of measurable outcomes. TROSA built a proprietary database called "Fresh Start" in 2011. Fresh Start enables TROSA to have the advantage of determining improvement opportunities on key performance metrics based on real time data. Additionally, TROSA can use Fresh Start to determine the outcomes of improvement initiatives.

For example, TROSA launched a Quality Initiative in 2014 to "assess intake data to determine ways to reduce barriers to admission for appropriate consumers" that was data driven through Fresh Start. Monitoring the data in real time and being able to see trends enabled TROSA to reduce the average percent of applications initially left open by 1% and more importantly, increase immediate approvals by 3%. This improved outcome has continued into 2015.

Another example would be TROSA's Intern Initiative that was designed specifically based on data that reflected a higher rate of loss in the first 6 months of the program. Analysis of the data shows that Intern Phase completion increased by 1% from 2013 to 2014.

External evaluating efforts include a five year SAMHSA grant with UNC that involved a comprehensive evaluation piece.

Other relevant information about your organization, including any actual or potential conflicts of interest if your organization were selected through a future procurement.

No conflicts of interest.

The *Pay for Success* initiative will be led an experienced executive team, board, advisors and consultants that have already bought into the concept.

Kevin R. McDonald, Founder, President, and CEO of TROSA founded the organization in 1994. Prior to coming to Durham, he spent 12 years with the Delancey Street Foundation, a therapeutic community in San Francisco. He also opened and directed Delancey Street Foundation's North Carolina facility in Greensboro. Immediately prior to founding TROSA, McDonald directed a program that assisted homeless parolees who were former gang members in Los Angeles. McDonald has been recognized locally, regionally, and nationally for his work at TROSA.

Keith Artin joined TROSA in 2001, and served as the organization's Chief Operating Officer from 2003 through 2011. From 2011 through 2014, he left his staff role and served on the TROSA Board of Directors, before rejoining TROSA's staff in 2014 to return to his role as COO. Keith also has several years of experience working for entrepreneurial start-ups and in investment banking and public finance. He holds an MBA from the Fuqua School of Business at Duke University, and received his BS in Commerce from the University of Virginia.

TROSA's Kim Chambers, CPA, was named Non Profit CFO of the Year by Triangle Business Journal in 2014. An annual external independent audit is prepared annually, most recently by Langdon & Company. For the last four years, TROSA has received an unmodified or unqualified opinion (as appropriate). TROSA was randomly selected by the Internal Revenue Service (IRS) in September 2014 for an audit of its 2012 tax return (period ending June 30, 2013). The IRS had no modifications to the returns as filed or to TROSA's business practices.

TROSA is also guided by members of the Board of Directors, who include

- **Chair, Greg Britz,** Associate Director for Operations and Finance, Center for Documentary Studies
- **Secretary and Treasurer, Jon Woodall,** Community Member
- **Tad vanDusen**, Attorney, Williams Mullen, PA
- **Jeff Clark,** Managing General Partner, Aurora Funds Inc.
- **Sue Egnoto,** Marketing & Strategy Consultant
- **Patrick Getzen,** Vice President and Chief Actuary, Blue Cross Blue Shield of NC
- **Catherine Gillis, Ph.D., RN, FANN,** Helene Fuld Health Trust, Professor of Nursing at Duke University
- **Wendy Kuran,** Associate Vice President for Business Development, Duke Kunshan University (DKU) and China
- **Kevin McDonald,** TROSA CEO
- **Prue Meehan,** Community Member
- **Joyne Mitchell-Antoine, CFRE,** Vice President for Development
- **Miles Palmer, Ph.D.,** Co-Founder and Manager, 8 Rivers Capital, LLC
- **Amir Rezvani, Ph.D.,** Professor of Psychiatry and Behavioral Sciences, Duke University
- **Ernest Roessler,** Retired CEO, National Commerce Financial Corporation
- **Lao Rubert,** Senior Director for Policy and Special Projects, Carolina Justice Policy Center
- **Matt Springer,** Managing Director, Madrock Advisors, LLC
- **Nick Tennyson,** Secretary, North Carolina Department of Transportation

What outcomes should the state pursue?

North Carolina should pursue successful treatment for substance abusers through quantitative metrics that lead to qualitative social outcomes or benefits.

Qualitative social outcomes or benefits might include reduced crime cost, reduced arrest and prosecution cost, reduced incarceration, reduced healthcare cost and economic benefits associated with wage earnings.

*Note
TROSA has found through its previous initiatives in the *Pay for Success* field that the successful creation and implementation of a contract depends on what outcome metrics the government entity can quantify with their existing data and thus, is willing to pay for. TROSA separates itself from other service providers because it provides a diverse continuum of care that affects a myriad of social outcomes to include all of the previously stated qualitative benefits. These outcomes are a foundation to build on in the development of a contract as the government has the flexibility to iteratively develop a payment metric with all other parties involved without worrying about being married to an initial metric that doesn't hold up through the process but rather focus on meeting the intent of *Pay for Success*.

What evidence exists for a baseline comparison?

In The National Center on Addiction and Substance Abuse at Columbia (CASA) at Columbia University's Behind Bars II: Substance Abuse and America's Prison Population CASA states the following baseline (assuming 2.5% inflation) for the annual qualitative social outcomes or benefits deriving from breaking the cycle of addiction:

CASA Baseline (person/year)	2006 Dollars	2015 Dollars
Crime Cost	$6,100	$7,618
Arrest & Prosecution	$9,000	$11,240
Incarceration	$25,144	$31,401
Health Care	$5,937	$7,414
Economic Benefit	$44,772	$55,914

*Note
Improved criminal recidivism was the focused outcome in TROSA's previous *Pay for Success* effort. Like many other *Pay for Success* outcomes, TROSA outperforms perceived state baselines although a defined recidivism

metric never came to fruition. TROSA is open to alternative outcome measurements that would facilitate a *Pay for Success* contract.

What investment would be required by investors?

A year of treatment at TROSA currently costs ~$28,000. The average length of treatment is over 11 months. TROSA currently has a $15M budget and serves over 500 people. Eighty percent of the cost of treatment is covered internally by TROSA's revenue generating vocational training businesses.

Depending on the intent and scope of the contract, initial investment could range from $5M to $25M.

*Note

In addition to pursuing a true *Pay for Success* initiative, TROSA was also approached by leaders in NC DHHS to develop an expansion concept where the state would play both the role of government and investor. In response TROSA developed a hybrid *pay for success* model titled *The Work Force Investment Program for People with Substance Use and Co-occurring Disorders* (WIPSA). WIPSA is a four year 70% investment, 30% performance model where the state would invest $7M in year one and two while paying for the quantitative metrics previously stated in year three and four. Additionally, the state would reap the benefits of the "new" ~80% sustainable TROSA facility each year after the contract while entering into a service payment for the remaining 20%. TROSA has also been approached by other states and countries eager for a TROSA-like model in their respective areas.

What payments would be expected from the state? (rough order of magnitude)

Depending on the intent and scope of the contract, payments could range from $7M to $35M.

What opportunities exist to partner with local governments to achieve savings and benefits at multiple levels of government?

In 2014 TROSA provided 146,000 treatment days to 801 individuals from 86 of 100 North Carolina counties. Additionally, 62% of TROSA's population came from Tier I or II counties.

TROSA is ready and willing to partner with any level of government in the 86 counties that currently reap the benefit of TROSA's service.

How should the state measure and pay for success (cashable savings, wellbeing benefits, and willingness to pay)?

The state can measure and pay for success through TROSA on either cashable savings, wellbeing benefits or willingness to pay.

*Note

TROSA is willing to negotiate any type of *Pay for Success* model although a contract where quantitative metrics are the payment driver and qualitative social outcomes or benefits in addition to sustainable service drive long term state "savings" may be the path of least resistance in the first *Pay for Success* contract.

What metrics should the state use?

North Carolina should pursue successful treatment for substance abusers through quantitative metrics that lead to qualitative social outcomes or benefits.

Quantitative metrics include bed capacity of provider, treatment days and vocational training days.

In The National Institute on Drug Abuse's (NIDA) Principles of Drug Addiction Treatment: A Research Based Guide NIDA states that effective treatment attends to the multiple needs of the individual and that the best outcomes occur with longer durations of treatment.

Quantitative metrics that define NIDA's principles of treatment can be drawn directly to current and former efforts by the state. *Bed capacity of provider* and *treatment days* can be pegged to existing "long term" treatment facility performance and funding by Managed Care Organizations or historic NC state run long-term residential treatment facilities like Evergreen Rehabilitation Center and Mary Frances Center. *Vocational training days* baseline can be pegged to efforts by NCWorks and DHHS.

What time period should the state set for intervention and evaluation?

Using the suggested quantitative metrics, the state could intervene and evaluate the program quarterly.

At what interim dates should the state evaluate outcomes?

If the state pursues successful treatment for substance abusers through quantitative metrics that lead to qualitative social outcomes or benefits, the state could evaluate outcomes yearly.

What is the expected actuarially-based cost per individual without an intervention and what is the cost per individual to achieve the desired outcome?

Per CASA's stated social outcomes or benefits, the cost per individual without an intervention can range from to $63,000 a year for sustained health care and economic benefit to $113,00 a year for all benefits.

To achieve the desired outcome the annual cost of treatment is ~$28,000 a year.

One of the following two

TROSA could do either.

A. If a new program, how would it expand through scale or replication?

TROSA has developed several expansion plans although without an investor, TROSA does not have the incentive to assume risk in overextending itself to another area of North Carolina.

Through a *Pay for Success* contract, TROSA is willing to grow to a new location with as few as 50 beds to as many as 225 depending on the scale and scope of investment.

*Note

A *Pay for Performance* contract focused on funding existing efforts against a state benchmark could be the most cost effective as it would not require the capital outlay for property, plant and equipment.

What continuing role would your organization have in continuing the program?

TROSA would continue its program at the new location long after the *Pay for Success* contract closes (which makes the state's ROI that much greater).

What role would the state have in continuing the program?

The state would fund the uncovered cost of the sustainable therapeutic community.

What would the ongoing costs of the program be?

The state would pay 20% of the total cost of treatment in perpetuity. Cost could be funneled through managed care organizations or directly from the legislature.

B. If a discontinuation effort, how would service to the target population improve without the program?

At over 500 residents, TROSA's population eclipses all but four Piedmont Region Correctional Institutions.

The argument can be made that with 90% of its residents having previous criminal justice involvement (with 40% currently on probation), TROSA has discontinued a correctional institution.

What would be the comparison for the government program?

A North Carolina correctional institution.

Would the government divert resources to a more effective program?

"For every NC dollar spent on substance abuse and addiction, 91 cents went toward burden (criminal justice, health, or other public programs), 8 cents supported regulation and compliance and only 1 cent went toward prevention and treatment. Over $4 billion went towards "shoveling up the wreckage."
- North Carolina Governor's Institute on Substance Abuse

Resources could be diverted to TROSA to provide prevention and treatment.

Who in the private sector could offset the government program's services?

TROSA.

Is the program counterproductive such that stopping it without replacing it would produce better results for the state and the target population?

"You know, most people don't think of criminal justice, addiction and mental health issues priorities as we work to streamline government. But as a mayor, I've seen first-hand the collateral damage to our families, our communities and taxpayers if we continue to sweep these issues under the rug… we have to do everything that we can to help this terrible addiction issue throughout North Carolina"
- Governor Pat McCrory

NC State of the State Address, Feb 13 2013

No.

RFI NO. 49-GOVPFS2015

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Safe Families for North Carolina Children: A Proposed Pay for Success Initiative

Executive Summary: Each year in North Carolina, an average of 140,000 children are reported to local Departments of Social Services (DSS) for alleged child abuse or neglect. Over 80% of these allegations are for parental neglect of children's basic needs rather than for physical or sexual abuse. Instead of investigating a specific incident of neglect, the majority of neglect reports are now processed through a Multiple Response System (MRS) into a family assessment track that assesses the broader spectrum of family needs that brought the family to the attention of DSS. Even though most of these family assessments end with the children's remaining safely in the legal custody of their parents, the proportion of children subject to family assessments, who are physically removed from their family home and placed into publicly financed foster care, has been rising at an average annual rate of 10.8% over the last three years. Approximately 3,200 children who are subject to the family assessment track in North Carolina are taken into public custody and placed into foster care. The length of children's stay in foster care typically extends beyond one year for a median duration of 377 days. During this period of protective custody, taxpayer money is spent on judicial hearings, DSS placement location, case management services, and foster care maintenance payments, which annually can amount to tens of thousands of dollars. As an alternative to removal into protective custody, local jurisdictions are exploring ways of helping families to retain legal responsibility for their children and voluntarily place them with relatives, neighbors, and church families.

Safe Families for Children (SFC) is a volunteer program designed to prevent children's removal into protective custody and minimize maltreatment recurrence by recruiting and overseeing a voluntary network of host families with whom parents can place their children in times of need. It helps to fill a void that is left when extended families are unavailable or are too needy to lend a helping hand. Started in 2002 by Lydia Home Association (LYDIA), a Christian social service agency based in Chicago, SFC partners with churches, ministries, and local community organizations to offer voluntary placement arrangements to families whose children are at risk of being removed from their custody by child protective authorities. Children usually spend a little more than a month in the home of host families. SFC volunteers and paid staff serve as case coordinators for the birth parents and the host families.at a cost of approximately $500 per episode of assistance. In addition to saving taxpayer dollars, SFC functions as an alternative to the more adversarial nature of child protective services by fostering cooperation and trust between birth parents and the host family, who share decision-making authority. Additional volunteers may be recruited to help both sets of families in other ways, such as providing transportation assistance, child care, moral support, and job search assistance. After the hosting arrangement has ended, the goal is for the two families to remain in contact and sustain the social support that was built up between the parents and the hosting family. Because of the legacy of trust and reciprocity that is forged between the two families during their shared care of the child, the expectation is that the supportive arrangement will continue after the children are reunified with their birth family.

The potential for taxpayer savings, which annually could run into the tens of millions of dollars if implemented statewide, makes SFC a prime candidate for a Pay for Success (PFS) initiative. LYDIA sees an opportunity to bring SFC to North Carolina and is currently exploring a pilot SFC program in one or more southeastern counties of North Carolina.[1] One of the SFC developers is currently getting the word out to local churches and organizations in New Hanover (Wilmington) and Onslow (Jacksonville) counties in order to build a team of host families. The person is also engaged in conversations in Mecklenburg County. The SFC program can be scaled-up statewide if evaluated to yield economic benefits to counties and the state.

The evaluator of SFC is Mark F. Testa, Spears-Turner Distinguished Professor at the School of Social Work at the University of North Carolina. He has already secured $95,708 in funding from the Laura and John Arnold Foundation to conduct a 2-year, low-cost randomized controlled trial (RCT) of the

[1] Counties include Brunswick, Carteret, Craven, Duplin, Greene, Jones, Lenoir, Pamlico, Pender, Onslow, New Hanover, and Wayne,

SFC program in the state of Illinois. The evaluator will seek additional funding from the Arnold Foundation to implement a similar RCT design with participating counties in North Carolina in which government payments will based on savings resulting from the diversion of neglected children from more costly county, state, and federally funded foster care.

Background

The School of Social Work at the University of North Carolina will support Dr. Testa to serve as the evaluator of the SFC Pay for Success program in North Carolina. In the role of evaluator, Professor Testa will establish the benchmarks for success and verify if the SFC program has met those benchmarks. LYDIA will carry out the services specified in the SFC Pay for Success contract agreement. The Arnold Foundation will be asked to cover the upfront investment in the design of the low-cost RCT evaluation, including data gathering from the government program being evaluated. Third Sector Capital Partners, Inc. would bring the expertise to coordinate investors, providers, and other parties to construct implement the SFC Pay for Success contract.

The UNC School of Social Work

The UNC School of Social Work has a long history of educating and training child welfare administrators and workers for local DSS. The School is exploring ways of funding innovative child welfare interventions from voluntary and private sources that do not depend exclusively on public dollars. Funded research at the UNC School of Social Work exceeds $12 million annually, representing contracts and grants from national, state, and local sources. The faculty and research staff of the UNC School of Social Work have led nearly 50 major research and training projects, with current or past funders that include:

- Federal Agreements: The National Institutes of Health, including NIDA, NIA, NIMH, and NIBIB; the Administration on Children, Youth, and Families; the Health Resources and Services Administration; the Institute of Education Sciences; and the National Center for Injury Prevention and Control
- Foundations: The School works with many of the nation's most prestigious foundations, including the Ford Foundation, the Duke Endowment, William T. Grant Foundation, Robert Wood Johnson, the MacArthur Foundation, Knight Foundation, and the Annie E. Casey Foundation.
- State Contracts: the School is actively involved in an array of contracts with the State of North Carolina to create a social services workforce that is highly qualified, competent,

and well able to meet changing service needs across the state. Our faculty and students contribute in countless ways to improving the lives of the people of North Carolina through our child welfare traineeships, workforce training, data analysis, behavioral health services, and program consultation.

LYDIA

LYDIA's ministry to children and families began in 1913, when the Ladies' Aid Society at Salem Evangelical Free Church in Chicago set about helping orphaned children in their city. Today LYDIA has expanded its ministry to provide a continuum of services that includes counseling, day care, foster care placement, short-term residential arrangements and many others. A number of its programs reach out to parents by helping them provide a loving home for their children. In 2002, the agency started SFC to aid families whose children are at risk of being removed from their custody by child protective authorities. SFC is currently operating in over 40 local sites across the U.S. and in England. Plans are underway to move SFC into a separate non-profit that is a subsidiary of LYDIA.

Third Sector Capital Partners, Inc.

Third Sector Capital Partners, Inc. is a 501(c) (3) nonprofit that leads governments, high-performing nonprofits, and private funders in building collaborative, evidence-based initiatives that address society's most persistent challenges. As experts in innovative public-private financing strategies, Third Sector is an architect and builder of the nation's most promising Pay for Success projects including the Commonwealth of Massachusetts and Cuyahoga County, Ohio. Third Sector is a grantee of the Corporation for National and Community Service's Social Innovation Fund. Over the past few years, Third Sector has engaged with Dr. Mark Testa to discuss promising child welfare interventions and evaluation techniques that could be developed under a Pay for Success contract structure.

Experience of Evaluator

Dr. Mark F. Testa is the Spears-Turner Distinguished Professor at the University of North Carolina at Chapel Hill. In addition to his experience with the evaluation of SFC in Illinois, Dr. Testa has designed three RCTs of subsidized guardianship demonstrations in the states of Illinois, Tennessee and Wisconsin and the RCT of the Illinois recovery coach program for substance-abusing parents. Currently Dr. Testa is the principal investigator for the federal Permanency Innovations Initiative and the Illinois Birth through Three IV-E waiver evaluation of therapeutic services to parents and caregivers of young children placed

into foster care. Both of these federally-supported studies use RCTs and existing administrative data to evaluate the causal impact of the respective interventions on child welfare outcomes.

Proposed Outcomes

The SFC-PFS project will aim to accomplish the following outcomes for North Carolina children whose removal into foster care was prompted by a family assessment of need following the family's referral to local child protective authorities for alleged parental neglect. Table 1 identifies the core SFC program assumptions and measures for the following outcomes: 1) reduced likelihood of removal from the home for placement into foster care; 2) similar or lower likelihood of repeat victimization within 3 and 6 months from date of investigation; 3) and similar or higher rates of safe and stable reunification with birth families within 12 months of removal. Success will be evaluated by comparing the outcomes for children referred to the SFC host family network to the outcomes for children from similar families who are removed and placed into foster care as a result of a family assessment. The expected economic benefit could run from $1,720,000 to $6,880,000 annually depending on the rate of engagement of families with the SFC program in the Southeastern counties (see assumptions listed under the Anticipated Investments section below). The cashable savings could be 10 times these amounts if the program were rolled out across the entire state.

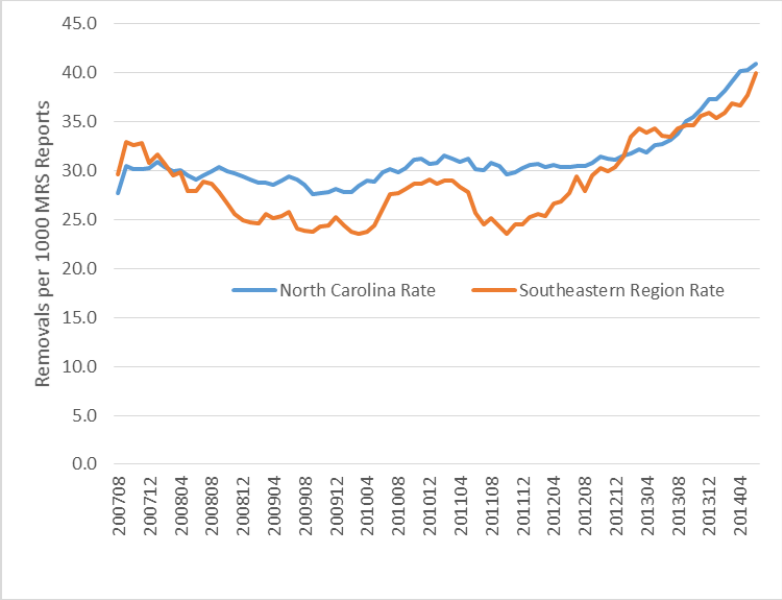
Table 1.—Core SFC program assumptions, outcomes, and measures

Core Program Assumptions	Outcome	Measure
Child welfare deflection: SFC provides a safe alternative to child welfare custody, which can significantly reduce the number entering the child welfare system.	*Removal to foster care (primary):* Removal of a child from the home for placement into foster care.	Among child subjects investigated for maltreatment, % taken into protective custody or later removed into foster care from 1 day to 24 months after randomization.
Child abuse prevention: Providing resource-limited parent with a safe, temporary place for children without threat of losing custody helps avert subsequent abuse/neglect episodes.	*Repeat victimization within 3 & 6 months (secondary):* Re-victimization of children within 3 and 6 months from the date of investigation.	Among child subjects investigated for maltreatment, % who had a subsequent report of maltreatment within 3 and 6 months from the date of investigation
Family support and stabilization: Many SFC host families become the "fictive" extended family that a parent never had, which helps birth parents maintain full custody or quickly regain physical custody of their children.	*Permanence within 12 months of investigation (secondary):* Maintenance of a child with the birth family for at least 12 months or reunification within 12 months.	Among child subjects investigated for child maltreatment, % who were maintained in the custody of their parents or returned to their physical custody within 12 months of investigation.

Baseline Evidence

MRS allows a county DSS the choice between a traditional investigative track for serious incidents of child maltreatment and a family assessment track for responding to reports of child neglect and dependency. The assumption underlying the family assessment track is that children can be better served when the focus is on building a trusting relationship with their families rather than taking a more accusatory approach toward their caregivers. The preference for an alternative response is demonstrated by the fact that now over 70% of children reported to county DSS in North Carolina are processed through the family assessment track.

Figure 1 Removal Rates of Children Subject to Family Assessment



Even though most of these family assessments end with the children's remaining in the legal custody of their parents, a rising proportion of children who are subject to family assessment are physically removed from their family home and placed into publicly financed foster care. Since 2011, the annual rate of increase has averaged 10.8 percent. Figure 1 illustrates the upward trend in removal rates of children subject to family assessment for the state as a whole and for the southeastern region. According to data submitted by the state to the federal government, an average of 3,200 children who are subject to the family assessment track are annually taken into care and 400 children are removed annually in the southeastern region of the state (Source: Fostering Court Improvement Website, University of North Carolina at Chapel Hill, http://fosteringcourtimprovement.org/state_websites.php).

There is a sharp discontinuity between the trusting partnership that family assessment endeavors to build and the legal response of child removal which DSS invokes to place children into foster care. There is no multiple response at the disposal of DSS for child placement, other than kinship care, which could enable the agency to adhere to family assessment principles rather than take a more adversarial approach and remove the children from their home. The lack of a multiple response to child placement

runs the danger of an agency's taking more drastic measures when respite care may be all that is needed or, worse still, leaving children in unsafe homes when temporary substitute care is needed.

SFC offers county DSS an alternative to child removal and traditional foster care by partnering with churches, ministries, and local community organizations to offer voluntary placement arrangements to families whose children are at risk of being removed from their custody. Examples of circumstances in which SFC is appropriate include the following situations identified in a report completed at the University of Maryland School of Social Work:[2]

- An incident of child maltreatment occurs within the family but does not reach the level of maltreatment where removal of the child is mandated by law. Often these are neglect or very low level abuse cases under which some states assist the family without taking custody of the child. In such cases a referral may be made to SFC.
- An incident is reported to the child welfare system and while the family assessment is occurring, the child welfare agency requires that the child be placed out of the home. During this time and until the assessment is completed, the child can stay with a SFC host family to ensure safety.
- When a teenage mother is in the care of the child welfare system and not able to maintain a stable placement but the child of the teenage mom is not in care. Often the teenage mom is placed in a foster family or group home while her child is hosted by a SFC host family.

SFC functions as an alternative to the more adversarial nature of child protective services by fostering cooperation and trust between birth parents and the host family, who share decision-making authority. Additional volunteers may be recruited to help both sets of families in other ways, such as providing transportation assistance, child care, moral support, and job search assistance. After the hosting arrangement has ended, the goal is for the two families to remain in contact and sustain the social support that was built up between the parents and the hosting family. Because of the legacy of trust and reciprocity that is forged between the two families during their shared care of the child, the expectation is that the supportive arrangement will continue after the children are reunified with their birth family.

LYDIA is seeking to bring the SFC program to North Carolina, starting with the counties in the southeastern region of the state. Table 2 presents baseline county-level data on child welfare needs and performance for the Southeastern region of North Carolina and the entire state. The two designated regions for the pilot SFC program are the two largest counties in the Southeastern region: New Hanover and Onslow. Together they account for 64% of the removals of children into foster care who were subject of family assessment. These two counties also exhibit higher per-capita rates of child maltreatment reports than the other Southeastern counties and the state as a whole. But they differ in rates of repeat

[2] Murray, K., O'Connor, J., Rushovich, B. & Finigan, N. (2012). *Safe Families for Children's Program Model and Logic Model Description Report.* Baltimore: University of Maryland School of Social Work

maltreatment with New Hanover registering the highest at 6.7% with reports within 6 months and Onslow among the lowest at 2.9%.

Table 2.—Baseline Indicators for North Carolina Southeastern Counties and Total State as of March 30, 2015

Region	Child Maltreatment Reports		Subject to Family Assessment				Reunified within 12mos. of Removal	Median Days in Foster Care
	Number of Reports[1]	Rate Per 1000 Child Population	Number[1]	% of Reports	Re-victimized within 6 months	Removed into foster care		
Brunswick	1,317	58.9	870	66.1%	4.0%	36	14.7%	376.4
Carteret	923	71.0	816	88.4%	2.1%	18	20.0%	114.7
Craven	1,549	63.6	1,431	92.4%	3.9%	30	22.2%	368.3
Duplin	915	60.2	449	49.1%	5.1%	3	7.7%	400
Greene	209	42.8	187	89.5%	0.0%	12	33.3%	333.5
Jones	47	21.3	26	55.3%	0.0%	0	0.0%	719.2
Lenoir	1,206	85.7	1,013	84.0%	4.4%	18	0.0%	418.6
New Hanover*	3,786	87.5	3,115	82.3%	6.7%	172	25.6%	298
Onslow*	3,634	77.1	3,128	86.1%	2.9%	97	13.7%	346.5
Pamlico	62	26.7	49	79.0%	5.0%	0	0.0%	426.1
Pender	518	40.3	447	86.3%	3.0%	16	20.0%	543
Wayne	1,657	53.6	1,467	88.5%	3.1%	21	27.8%	388.8
Total	15,823	68.0	12,998	82.1%	4.2%	423	19.8%	344.8
North Carolina	139,547	58.5	107,434	77.0%	3.9%	3,258	17.7%	377.1

*Pilot sites [1]Complete counts July 1, 2013- June 30, 2014.

Source: Fostering Court Improvement Website, University of North Carolina at Chapel Hill, http://fosteringcourtimprovement.org/state_websites.php

Expected Outcomes

The best external source of baseline data for establishing expected outcomes comes from the SFC program that has operated in Illinois. The first two columns of data in Table 3 were generated by matching children served by SFC host families with the children who were taken into Illinois protective custody between the years from 2003 to September 30, 2014. This period coincides with the years SFC became operational in Illinois. Of the 3,160 children placed with SFC host families, 891 matched exactly to 1,914 children in the DCFS-removed population by the quarter of case opening, the age at opening, and the gender and ethnicity of the child. Because children placed with SFC families profile younger, include more Hispanics, and cluster in more recent entry cohorts than the DCFS-removed population of children,

exact matching on these variable helps to achieve closer statistical equivalence between the two groups. Table 3 compares differences in key outcome variables for the populations of SFC-hosted and DCFS-removed populations. The last two columns of data were generated from the Fostering Court Improvement website maintained at the University of North Carolina. These differences offers several points of reference for projecting expected differences in outcomes as a result of the SFC intervention.

Table 3.—Differences between matched SFC-hosted and matched DCFS-Removed Samples

Outcome	SFC-Matched Children	DCFS Matched Children	Illinois	North Carolina
Reunified within 12 mos.	80.4%	26.4%	13.0%	17.7%
Median days of out-of-home care	35 days	564 days	768 days	377 days
Re-victimization within 6 mos.	n.a.	4.3%	8.0%	3.9%

The largest projected difference is the much shorter median length of separation of children from their birth families. Half of the children in the SFC-matched sample return to parental custody within 35 days compared to 564 days for the DCFS matched sample. Even though Illinois registers lengths of stay that are approximately twice as lengthy as stays in North Carolina, the duration that children are separated from their birth families is still approximately one-tenth the median duration of foster care in North Carolina.

Anticipated Investments

There should be only minimal investment required from private investors. Support for paid SFC staff to serve as case coordinators for the birth parents and the host families averages approximately $500 per episode of assistance. The cost of conducting the independent evaluation should not exceed the $100,000 that the Arnold Foundation is currently providing for the evaluation of the Illinois SFC.

The amount of payments that would be expected from North Carolina government depends on the state/county commitment to reserve in a Special Fund the difference between the average costs of services as usual for the children removed to foster care and the $500 per episode of SFC assistance. Assuming that the North Carolina costs of foster care and case management are roughly equivalent to the Illinois average of $15 per day in foster care maintenance costs and an additional $45 per day in county and private agency administrative expenses, the expected costs of service of usual would amount to $22,000 for a year of foster care. Over a two-year period, it can be projected that approximately 800 children from the Southeastern counties would be candidates for the SFC program. Randomizing one-half of the children to the SFC program and the other half to services as usual would involve assigning 400 cases to the comparison group. Depending on the rate of engagement of families with the SFC program, the

cashable savings could vary from $1,720,000 (20% participation) to $6,880,000 (80% participation). These amounts are based on the $21,500 difference between SFC costs and services as usual costs.

When looking at savings, it will be critical to look beyond just foster care budgets to find savings. In North Carolina, the cost of foster care is borne more by Medicaid than by Child Welfare. Child Welfare pays a board rate of about $500 to $600 a month depending on the age of the child. Many foster children, with their histories of maltreatment, are in therapeutic placements for which Medicaid pays $2500 to $10,000 per month or more. A substantial percentage of the savings from reduced entry into foster care could come from decreased Medicaid spending for therapeutic placements. In addition to child welfare costs, .savings within Medicaid budgets should also be considered and measured.

The state should measure primary success based on the difference between the total days in "out-of-home" care between the SFC and comparison groups. In addition, primary success should also depend on no difference in the rates of re-victimization in the two groups. These calculations should be done every 6 months over a two-year period for the intervention and the evaluation. Ideally the SFC intervention and comparison groups should be formed by randomly assigning families whose children are targeted for removal to either the SFC program or to services as usual. For the Illinois evaluation of SFC, computer programmers developed a "behind-the-scenes" randomizing routine for assigning each family unit whom investigators deem an appropriate candidate for the SFC program. After an investigator and supervisor agree that a family is appropriate for SFC, the supervisor activates a "hyperlink" associated with each case investigation. This hyperlink "flips a coin" to allocate randomly the recommended case to the intervention or comparison group. A target-area supervisor gets a response immediately upon clicking the hyperlink which will indicate whether or not the investigator may approach the family about participating in the SFC program (intervention group) or whether the family must be taken into foster care or referred to another program or service (comparison group). A similar method of allocating cases will be explored in the pilot counties.

Other ways of forming comparison groups can also be explored, which don't require random assignment at the family level. These include randomly assigning counties to the two groups. The major drawback to this approach it that it requires the participation of a large number of counties into order to detect statistically significant differences. Fortunately the ability to rely on existing administrative data to track outcomes may make a county-randomized design feasible if SFC is scalable across the state.

Response to North Carolina Request for Information
Pay for Success Project

Wyman's Teen Outreach Program®

Executive Summary

Too often young people lack the support they need to develop positive skills, overcome the adversity they may face in their home or neighborhood, and ultimately thrive. The decisions teenagers make have long term implications on their life trajectory. Focusing interventions solely on one piece of the problem – school failure, teen pregnancy – may fail to equip teens with the skills they need to succeed, not just to avoid a specific problem. While there are promising programs to enable youth success, limited funding restricts these models to only a small portion of the population in need. Wyman's Teen Outreach Program (TOP) is already delivered in North Carolina by three Wyman partners: NC Department of Health and Human Services; Catawba County Social Services; SHIFT NC -Sexual Health Initiatives For Teens/Adolescent Pregnancy Prevention Campaign of NC. Using innovative financing models, such as a Pay for Success model, to further scale TOP® in North Carolina could provide thousands more young people with the opportunity to thrive.

Wyman's Teen Outreach Program® (TOP®)

Wyman Center is a 117 year old nonprofit organization with an annual budget of $6 million based in St. Louis, Missouri that partners with communities to provide teens with the supports and opportunities they need to survive AND thrive in life. Wyman programs change the odds for young people from disadvantaged circumstances, allowing them to become economically self-sufficient, leaders in their communities and ultimately, to break the cycle of poverty.

Wyman's Teen Outreach Program® (TOP®) is an evidence-based best practice program specifically designed for teens in 6th to 12th grade. Guided by an engaging and relevant nine-month curriculum, TOP® reduces the risk of problem behavior while promoting healthy choices and empowering teens to lead successful lives and build strong communities. This cost-effective approach is grounded in contemporary research and nationally recognized as a program that delivers real results.

Wyman's TOP® works by providing communities, organizations and schools with a tested framework for creating or enhancing local youth development efforts. There are three essential goals that every teen in the program can build a foundation of success from: healthy behaviors, life skills, and a sense of purpose.

August 11, 2015

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W Y M A N
Real Teens. Real Life. Real Results.

I. Target Population

Wyman's Teen Outreach Program® (TOP®) focuses on youth, aged 11 to 21, who are economically disadvantaged and whose circumstances create risk of lower life opportunities. TOP® is an evidence-based best practice youth development program that provides critical supports and opportunities to young people during adolescence. TOP® is grounded in contemporary research, which promotes positive development through curriculum-guided, interactive group discussions, positive adult guidance, and community service learning. It is specifically designed for young people in 6th to 12th grade and lowers risk of negative behaviors (e.g. course failure, school suspension, pregnancy) while delivering on three essential goals: healthy behaviors, life skills and a sense of purpose. These goals both directly and indirectly help students achieve increased PSAT and SAT scores, college enrollment and persistence, job persistence, and decreased reenrollment in remedial courses.

Youth living in poverty face many adverse situations at home and in their own neighborhoods. Too often they lack the support to develop the positive skills needed to overcome these situations, persevere and thrive. Decisions young people make between the ages of 13-18, including relating to whether to become a teen parent, choice of peer groups, avoidance of high risk situations, and engagement in school, affect their quality of life long-term. Simply targeting issues like teen violence, school failure or teen pregnancy is not sufficient to enable long-term success. Such efforts may equip teens to avoid that issue, yet do little to develop the young person's positive potential. As Karen Pittman of the Forum for Youth Investment points out, "Problem free is not fully prepared." "Fully-prepared" requires social and emotional skills and competencies – outside of academic preparation - competencies like effective communication, goal-setting, and decision-making. Recent research points to critical brain formation and pruning during adolescence. For teen brains, learning and practicing social and emotional skills helps solidify healthy decision-making and behaviors. Adolescents need consistent, constructive opportunities for growth and development in structured, well-supervised settings throughout the developmental years. To make progress, social and education policies across sectors would do well to recognize that problem behaviors are often merely symptoms of developmental deficits.

TOP® has been used with 6th-12th grade students in large urban and small rural school districts, alternative schools, and schools with Native American populations. A majority of those served to date are minorities and come from economically disadvantaged circumstances. Graduation rates in the schools served often hover below 70% and attendance figures for African American, Hispanic and multi-racial students are comparatively low. Student mobility is high and nearly one in three receives special education services. Consequently, these students are often at high risk for academic failure school dropout, and the likelihood of teen pregnancy.
The proposed intervention will bring Wyman's TOP® to middle and/or high school students in North Carolina. According to North Carolina Public schools, 57.5% of enrolled students in the 2013-2014 school year were eligible for free or reduced lunch, a percentage that continues to increase. North Carolina dropout counts and rates for most race/ethnic groups continue to decline, but the dropout rate for American Indian students increased after declining for nine consecutive years. In 2013-14 the dropout rate for American Indian students increased after dropping for nine consecutive years. The 2013-14 rate of 3.61 was a 15.7% increase from the

2012-13 rate of 3.12[1] Additionally, while the National Campaign to Prevent Teen Pregnancy reports that North Carolina has made impressive strides in addressing teen pregnancy and teen birth rates since 1991, data shows in 2010 public spending on teen childbearing in North Carolina totaled $325 million. As research has shown that TOP® improves educational outcomes by up to 60% and reduces teen pregnancy rates by more than 50% (which has a direct link on academic performance and school completion), the proposed intervention has a high probability of achieving decreases in course failure, school suspension, and high school drop-outs in the North Carolina schools to be targeted. Wyman would partner in the process of determining the areas of need and fit for the project in North Carolina if selected.

II. Proposed Intervention

Wyman's TOP® curriculum is packed in four age/stage appropriate levels, and includes lessons around values clarification, relationships, communication/assertiveness, influence, goal-setting, decision-making, human development and sexuality, and community service learning.

The TOP® framework is flexible enough to be used in the school setting, in after-school programs, or an out-of-school enrichment program. It has been successfully implemented in multiple settings, nationwide, by multiple types of providers – teen development organizations, public health organizations, teen pregnancy prevention providers, schools, etc. Communities that deliver TOP® can tailor the program to meet local needs and concerns. While the curriculum is rich in experiential exercises that enhance student knowledge and skill development, the sequence of those lessons may be varied to meet the student's and group's needs. This allows skilled facilitators to gauge the group and apply a lesson that is perceived as relevant and timely to the students.

Originally developed as an intervention strategy for pregnant and parenting teens, Wyman's Teen Outreach Program® (TOP®) has continued to develop and now includes a broader focus on helping teens learn to form and maintain positive relationships with other youth and adults, make healthy life choices, maintain school success, contribute to their communities, and develop the personal and interpersonal skills they will need to succeed in life and, in many cases, move out of poverty.

If selected, Wyman would work with three existing North Carolina partners (North Carolina Department of Health and Human Services; Catawba County Social Services; SHIFT NC -Sexual Health Initiatives For Teens formerly known as Adolescent Pregnancy Prevention Campaign of North Carolina) to either have them deliver or to identify credible local partner organizations to implement TOP® as in in-school program. TOP® meets once a week throughout the school year as part of the regular nine-month school schedule, for a minimum of 25 sessions. Students will also participate in community service learning for a minimum of 20 hours per school year. Through service learning, students develop a sense of competence as they identify community needs, plan and implement projects, and reflect on their experience. Within the context of community service,

[1] North Carolina Public Schools: Report to the Joint Legislative Education Oversight Committee 2013-2014 Annual Report of Drop Out Rates.

students master new skills, experience the impact they can have on others, and develop a sense of self-efficacy. Community service allows schools to strengthen and expand community involvement and relationships with other partners. TOP facilitators help students integrate social-emotional skills learned during classroom sessions with their real life application through service projects, reinforcing the application of these skills.

III. Ability to Implement & Scale

Today, TOP® is nationally recognized as a proven model for promoting the positive growth and development of youth. As one of Wyman's most successful, scalable and affordable programs, TOP® helps teens acquire the skills needed for positive outcomes and successful transitions into adulthood.

Wyman's TOP® is currently used with approximately 35,000 students served by 68 partners in 35 states. Wyman's TOP® has been successfully introduced in multiple settings, 35 states + DC and 190 cities nationwide, by various types of providers – schools, teen development organizations, public health organizations, teen pregnancy prevention providers, etc. A few examples of Wyman's national partners include: North Carolina Department of Health and Human Services; Catawba County Social Services; SHIFT NC -Sexual Health Initiatives For Teens formerly known as Adolescent Pregnancy Prevention Campaign (NC), Massachusetts Alliance on Teen Pregnancy (Boston, MA); Family Services of Roanoke Valley (VA); James Madison University Office on Children and Youth (Harrisonburg, VA); Chicago Public Schools (IL); Florida Department of Health; and Connecticut Department of Social Services; among others.

The Coalition for Families in Lee County uses funds from the N.C. Division of Public Health's Teen Pregnancy Prevention Initiatives (TPPI) to implement the Teen Outreach Program. The program teaches pregnancy prevention strategies to high-risk Hispanic teens and incorporates community service and educational field trips to college campuses. The program has helped Lee County reduce its Hispanic teen pregnancy rate by more than 34% and its overall rate by 20.6%.

In June 2014, Wyman Center's nationally recognized, evidence-based Teen Outreach Program® (TOP®) was selected as the partner of choice for the District of Columbia's Pay for Success project given its ability to increase teen leadership skills and reconnect them to their community, while reducing teen pregnancy, truancy, class failure and dropout rates. With the District's continued support, the team identified 4 local, qualified agencies to deliver the program within the District's most distressed areas. However, due to competing program and reform priorities, the focus and resources required to ensure the success of this project were not feasible under the District's new Administration and we were notified in early May 2015 that we would not be moving forward.

As a learning organization deeply committed to solving challenges that have plagued our nation for decades, Wyman, will leverage this work to pursue Pay for Success initiatives in other cities who share this same commitment. Given our role as one of the nation's first teams to pilot such an initiative, we will bring our lessons learned to the field so we may all benefit.

IV. Available Data & Measures

Over the project period, Wyman expects student outcomes to show improved academic performance and more successful transitions through school, demonstrated by reduced number of suspensions, dropouts and course failure. Additionally, we anticipate increased social-emotional attitudes, skills and behavior' increased engagement in social studies and school overall; and increased and enhanced community awareness and civic understanding and reduced incidences of teen pregnancy or fathering of a child. Outcomes are evaluated through interviews with administrators, teachers, and others in the school; classroom observations; student pre- and

Wyman has an established process to motivate strong performance from providers and model fidelity as well as to collect data. Replication sites must agree to follow the TOP® fidelity model, agree to hold meetings once per week for a minimum of nine months, utilize the TOP® curriculum weekly, maintain one trained TOP® facilitator per TOP® club and a minimum of 20 hours of Community Service Learning per youth per year, maintain a ratio of no more than one TOP® facilitator to 25 teens, annually conduct Wyman's pre- and post-surveys for teens and facilitators. Wyman has memorialized these commitments in a replication packet with template agreements for replication partners. In addition, Wyman has a proprietary data system that allows them to collect, store, and report data.

- Wyman's "train the trainer" model teaches partners how to deliver an evidence-based program with fidelity. Wyman conducts five-day comprehensive training sessions with experiential learning elements and "teach-back" opportunities. The training is designed to support partners' ability to develop deeper skills in training staff, in monitoring and coaching for quality, and in overall strategies in youth development. Wyman provides partners with skill-building lessons that will make them more effective in all areas of program management, delivery and evaluation, teen engagement, and program facilitation. Training occurs prior to program implementation and as needed.
- To measure program impact, Wyman measures teen progress through a pre-survey at the beginning of the program year and a post-survey at the end of the program year through Wyman's online tools. TOP®'s requirements with regard to data collection and reporting further instill both the knowledge and a level of discipline and analysis that help partners maximize the impact of their efforts. The National Network's proprietary systems also enable partners to generate instant reports that they may use for program evaluation, grant seeking, and related purposes.
- Field visits, audits and technical assistance by Wyman staff help partners hone their skills, identify and address issues quickly, and ensure continuous quality improvement at the point of program delivery. Wyman follows up with TOP® providers through partner audits, which may consist of additional club observation, data, reports, or review of records to ensure efficiency of systems.
- All TOP® partners are certified by Wyman and undergo recertification on a bi-annual basis. This ensures that the partner organization maintains high standards, meet program requirements, and deliver quality programming. Required certification site visits ensure fidelity to program and contract agreements. Site visits occur during the first year of implementation and every two years thereafter.

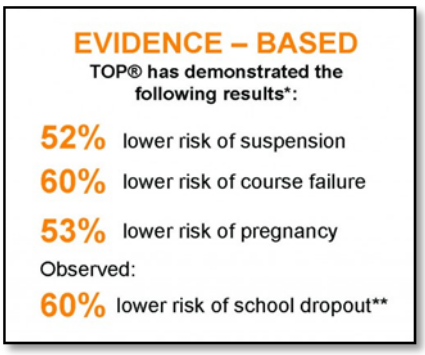
- To share best practices, field observations occur when Wyman determines that a certified partner's successful program or systems provide learning opportunities for the National Network.
- Replication partners are part of a community of practice through which they may interact with peers who are committed to delivering excellence. To facilitate this approach Wyman's National Network is bound together through an online community. Certified replication partners are able to connect directly to Wyman with questions, comments or concerns, and benefit by receiving updates on curriculum, share lessons learned and program delivery tips, access information on funding sources and other resources, and download a library of useful materials to support implementation. As a result, they learn from their participation in the National Network and are able to develop workable solutions to issues and challenges through their interaction with their peers across the country.

V. Potential for Rigorous Evaluation

There is a strong evidence base to show consistent positive outcomes and continued effectiveness from the TOP® program. In 2010, the US Department of Health and Human Services named TOP® a Tier 1 program, based on rigorous evaluation by an independent reviewer, Mathematica Policy Research. In addition, TOP® is currently engaged in 11 additional research studies with partners across the United States, such as Chapin Hall, Washington University, Arizona State University, and University of South Florida. These studies aim to test broader outcomes, which may yield even greater benefits to students and taxpayers.

TOP® has been nationally recognized as a best practice model by 15 independent authorities, including the Substance Abuse and Mental Health Services Administration's National Registration of Evidence-Based Programs and Practices, The Office of Juvenile Justice & Delinquency Prevention's Model Programs Guide, The Center for the Study and Prevention of Violence's Blueprints for Healthy Young Development, the Harvard Family Research Project's Out of School Time Evaluation Database, and the Rand Corporation's Promising Practices Network, among a dozen others.[2] TOP is now listed as one of 35 pre-approved, fundable programs that reduce teenage pregnancy and the behavioral risks associated with pregnancy.

Studies of TOP® have documented evidence-based results that show the program achieved: 52% reduction in risk of suspension; 60% reductions in risk of course failure; and 53% lower risk of pregnancy or fathering a child. Research also reported an observed 60% reduction in school dropout rates in the schools studied.



[2] Additional organizations that have recognized TOP as a best-practice provider include: FindYouthInfo.gov: The Interagency Working Group on Youth Programs; HORIZON International: Horizons Solution Site (Yale University and the United Nations); Child Trends: Guide to Effective Programs for Children and Youth; Ohio State University – Center for Learning Excellence Database of Evidence-based Practice; Whatcom Coalition for Healthy Communities – Promising Practices; CrimeSolutions.gov; National Collaboration for Youth; National Dropout Prevention Center; National Campaign to Prevent Teen and Unwanted Pregnancy; Collaborative for Academic, Social and Emotional Learning (CASEL).

Additionally, studies of the program provide strong evidence that participants in the program feel physically safe and emotionally supported; and develop skills and a sense of purpose by engaging their community through service learning projects.

During the initial national replication of TOP® (1984-1996), TOP® participated in several empirical research studies to evaluate both the behavioral outcomes and the process mechanisms that lead to positive outcomes for TOP® participants.

TOP® replication sites are currently involved in eleven evaluations. These current studies are looking at broader potential outcomes. Early indications suggest that TOP can also have a demonstrably beneficial effect on adolescent sexual health, substance abuse, school attendance, academic outcomes (such as GPA), and emotional outcomes (such as increased confidence and self-efficacy). A few studies are also evaluating community-wide effects, such as school climate and culture.

In addition to providing school-based services, TOP® has recently been used to support at-risk youth in other arenas, such as juvenile detention facilities. Accordingly, the potential positive outcomes could be significantly broader. Benefits could extend to reduced incidents of youth crime and reduced recidivism for juvenile offenders.

VI. Safeguards for the Target Population

Wyman's TOP® facilitators are trained on eight "Essential Program Elements" which help to create safe, inclusive and engaging environments for young people. These elements, which Wyman measures through an annual end of year participant survey, include:

- Teens have a choice in selecting their service work.
- Teens contribute a significant number of hours (at least 20) in their service placement.
- Teens feel their service work is engaging.
- Teen talking time in the group discussion is high, facilitator talking time is low.
- The TOP® facilitator is perceives as someone who is sensitive to the feelings and needs of teens.
- Teens feel the social environment of the program is emotionally supportive and safe.
- Teens believe the TOP® facilitator like the TOP® teens and cares about them.
- Teen participation in group discussion is high.

VII. Cashable Savings & Outcomes

The estimated cost per participant for the TOP® intervention is typically between $650 and $1,000 per year, depending on such factors as staffing requirements, transportation to training sites and/or service projects, and supplies and materials needed. TOP® produces a significant return on investment for communities by reducing the need for future tax-supported services to pregnant and parenting teens; increasing tax revenues to schools by reducing failure and dropouts; and increasing future earnings and taxes by increasing the likelihood of better income potential among program participants. For every dollar invested in TOP®, the Brookings Institute found a $1.29 return to the community via lower rates of teen pregnancy and the myriad of

challenges and lifetime issues that follow. (Brookings, 2007) Research also shows that each student who graduates from high school, instead of dropping out before getting a diploma, will save states an average of $13,706 in Medicaid and other uninsured care over their lifetime. (Muennig, 2006)

The Pay for Success Project could be highly effective in supporting and scaling TOP® while also bringing cost savings to the North Carolina. Below we have provided a potential scenario for scaling in-school TOP® for all children in a given grade. We have estimated costs and benefits based on national research studies, and publicly available data about teens, however, these are preliminary estimates. We look forward to working with your budgeting office to refine these estimates with concrete North Carolina data. Changing the nature of any one of these assumptions may significantly alter our outcomes findings and cost-benefit analysis.

- **High School Dropout**: Moreover, TOP®'s success at lowering high school dropout rates will generate value. We conservatively estimate a gain of $5,400 for each additional high school graduate, through use of services and tax revenues due to higher likelihood of employment and higher wage rates for high school graduates.[3]
- **Suspension**: A reduction in suspension could bring an additional savings of approximately $6,610 per avoided suspension (calculation based on another Pay for Success calculation),
- **Teen Pregnancy**: Savings from teen pregnancy could bring savings of $67,616 (based on another Pay for Success calculation). This includes medical expenses associated with birth, publicly-subsidized infant medical care, and publicly-subsidized children's benefits.

Potential Pay for Success Project Structure

While we encourage the State to to refine the scope and structure of a TOP® PFS project, an illustrative structure for a potential in-school scenario is outlined below.

Table 1 Illustrative PFS Project for a potential TOP® intervention

Term	Potential TOP® intervention
Intervention	Positive youth development program aimed at equipping teens with foundational skills. Program components are community service learning, peer experiences, and an adult resource network.
Setting	In – School classroom program for all students in specified grades in targeted schools
Individuals Served	6,000-8,000 students
Timeline	4.5 Years
Budget	Up to $9 million
ROI	Up to 150%

[3] Assumption is based of the pro-rated ten year value of lifetime usage of state services and tax revenues.

VIII. Conclusion

Wyman's TOP® is a proven best practice intervention that has been successfully implemented in dozens of cities with tens of thousands of young people across the country. TOP®'s ability to deliver documented reductions in the incidence of teen pregnancy and significant improvements in educational outcomes (fewer suspensions, dropouts and course failures), together with its flexibility of design, make it a logical choice for a Pay for Success project in North Carolina. TOP® is uniquely positioned to deliver returns under a Pay for Success contract, because it has been shown, over several decades, to achieve its objectives and change young people's lives for the better.